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CBA Item IV.D.
November 15-16, 2012

Discussion and Possible Action regarding Exposure Draft dated June 29, 2012 - Omnibus Proposal, AICPA Professional Ethics Division, Proposed Revised and New Interpretations and Proposed Deletion of Ethics Rulings; and Exposure Draft dated June 29, 2012 – Proposed Statements on Standards for Accounting and Review Services

Presented by: Paul Fisher, Supervising Investigative CPA
Date: November 2, 2012

Purpose of the Item

The purpose of this agenda item is to provide California Board of Accountancy (CBA) Members an opportunity to discuss the above referenced American Institute of Certified Public Accountants (AICPA) exposure drafts.

Action(s) Needed

CBA Members may direct staff to prepare and submit comments to the AICPA regarding the above referenced exposure drafts.

Background

Consistent with guidance provided by CBA Members at the May 2009 meeting, exposure drafts that are considered standard setting in nature, involving the actual standards that accountancy professional employ in conducting their business, are generally not placed on the CBA agenda for comment unless specifically requested by a CBA Member. Each month, exposure drafts that are standard setting in nature are listed in the EO Report and CBA Members have an opportunity to comment individually. The above referenced exposure drafts were included in the September and November EO Monthly Report.

Exposure drafts that affect the CBA's regulatory functions are placed on the CBA agenda for discussion. For example at the September 22, 2011 CBA meeting, CBA Members discussed and adopted a staff-prepared letter to issue to the AICPA and NASBA on proposed changes to the Statement on Standards for Continuing Professional Education Programs (CE). These proposed standards affected CBA's CE requirements that exist in CBA regulations.

Comments

The AICPA is proposing changes to the Statement on Standards for Accounting and Review Services (SSARS) and revisions and new interpretations of ethics rulings. These

Discussion and Possible Action regarding Exposure Draft dated June 29, 2012 - Omnibus Proposal, AICPA Professional Ethics Division, Proposed Revised and New Interpretations and Proposed Deletion of Ethics Rulings; and Exposure Draft dated June 29, 2012 – Proposed Statements on Standards for Accounting and Review Services

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changes will allow a CPA to prepare financial statements for a client without providing a report and without having specific wording in the engagement letter that the financial statements are for management use only (“prepare and present engagements”). These types of engagements will be considered non-attest services and will not be considered a SSARS engagement.

Staff reviewed the exposure drafts to determine how the proposed changes may impact peer review and continuing education (CE) requirements. Staff determined that the proposed changes will not require changes to the peer review regulations, as “prepare and present engagements” will not be included in SSARS. However, staff determined that the changes will have an impact on the CE requirements. Presently, licensees must complete the accounting and auditing (A&A) requirement (and thus the eight-hour fraud requirement) if they perform a compilation with no report. If the proposed changes take effect, licensees who only prepare financial statements, but do not do a compilation, will not be subject to A&A.

NASBA has already commented on the proposed changes and makes a specific comment related to a possible impact on peer review (**Attachment 4**).

The deadline to comment on the exposure drafts is November 30, 2012.

Fiscal/Economic Impact Considerations

None.

Recommendation

Staff have no recommendation on this item.

Attachments

1. AICPA Exposure Draft Titled: Proposed Statements on Standards for Accounting and Review Services
2. AICPA Exposure Draft Titled: Omnibus Proposal, AICPA Professional Ethics Division, Proposed Revised and New Interpretations and Proposed Deletion of Ethics Rulings
3. AICPA Whitepaper Titled: Preparation as a Nonattest Service: What Does it Mean and Why Should I Care
4. NASBA Comments on AICPA Exposure Drafts dated September 6, 2012

EXPOSURE DRAFT

PROPOSED STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

ASSOCIATION WITH UNAUDITED FINANCIAL STATEMENTS

COMPILATION OF FINANCIAL STATEMENTS

*COMPILATION OF FINANCIAL STATEMENTS—SPECIAL
CONSIDERATIONS*

(To supersede paragraphs 1.05–.06 and 2.01–.64 of Statement on Standards for Accounting and Review Services [SSARS] No. 19, Compilation and Review Engagements [AICPA, Professional Standards, AR sec. 60 and 80]; SSARS No. 13, Compilation of Specified Elements, Accounts, or Items of a Financial Statement, as amended [AR sec. 110]; SSARS No. 3, Compilation Reports on Financial Statements Included in Certain Prescribed Forms, as amended [AR sec. 300]; and SSARS No. 6, Reporting on Personal Financial Statements Included in Written Personal Financial Plans [AR sec. 600].)

June 29, 2012

~~Comments are requested by August 31, 2012.~~

Comment deadline extended to November 30, 2012.

Prepared by the AICPA Accounting and Review Services Committee for comment from persons interested in compilation and reporting issues.

Comments should be addressed to Mike Glynn at mglynn@aicpa.org.



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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to the proposed Statements on Standards for Accounting and Review Services (SSARSs) *Association With Unaudited Financial Statements* and *Compilation of Financial Statements*. These proposed SSARSs would supersede

- paragraphs 1.05–.06 and 2.01–.64 of SSARS No. 19, *Compilation and Review Engagements* (AICPA, *Professional Standards*, AR sec. 60 and 80);
- SSARS No. 13, *Compilation of Specified Elements, Accounts, or Items of a Financial Statement*, as amended (AICPA, *Professional Standards*, AR sec. 110);
- SSARS No. 3, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms*, as amended (AICPA, *Professional Standards*, AR sec. 300); and
- SSARS No. 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* (AICPA, *Professional Standards*, AR sec. 600).

The accompanying proposed SSARSs represent the redrafting of the preceding SSARSs to apply the Accounting and Review Services Committee's (ARSC's) clarity drafting conventions and also include additional changes from existing standards, as discussed in the following sections.

The proposed SSARSs would result in the following sections in the codified SSARSs:

- AR section 70, *Association With Unaudited Financial Statements*
- AR section 80, *Compilation of Financial Statements* (Revised)
- AR section 85, *Compilation of Financial Statements—Special Considerations*

In an attempt to make the standards easier to use, understand, and implement, the ARSC has determined to separate the compilation standards into two separate AR sections. AR section 80 will address those areas that are applicable to a basic compilation engagement. Those areas that are less frequently encountered will be addressed in AR section 85.

Additionally, ARSC concluded that certain material addressed in extant SSARSs should not be included in the clarified SSARSs. Such material includes:

- Compilation reports on financial statements included in certain prescribed forms (AR section 300)
- Communications between predecessor and successor accountants regarding acceptance of a compilation engagement (compilation requirements and guidance in AR section 400, *Communications Between Predecessor and Successor Accountants*)

ARSC will consider inclusion of appropriate guidance in subsequent editions of the AICPA Guide *Compilation and Review Engagements*.

Background

Clarity

In October 2011, the Auditing Standards Board (ASB) reached a major milestone in its project to redraft all of the auditing sections in *Codification of Statements on Auditing Standards* (contained in *AICPA Professional Standards*), with the release of Statement on Auditing Standards (SAS) Nos. 122–124. The clarified auditing standards are designed to make the standards easier to read, understand, and apply.

ARSC has concluded that by undertaking a similar clarity project, ARSC would serve the public interest by having all of the professional literature for audits, reviews, and compilations drafted using the same conventions. In addition, the resulting clarified compilation and review standards would be easier to read, understand, and apply.

In May 2010, ARSC approved a project to revise all existing compilation and review standards in the *Codification of Statements on Standards for Accounting and Review Services* (AR sections of *AICPA Professional Standards*) substantially using the drafting conventions adopted by the ASB in clarifying the auditing literature.

ARSC has determined, however, that there would be certain differences between its clarity drafting conventions and those adopted by the ASB. Specifically, ARSC has determined to not include specific application guidance with respect to governmental entities and smaller, less complex entities. Accordingly, the proposed SSARSs have been drafted in accordance with ARSC's clarity drafting conventions, which include the following:

- Establishing objectives for each clarified AR section
- Including a definitions section, where relevant, in each clarified AR section
- Separating requirements from application and other explanatory material
- Numbering application and other explanatory material paragraphs using an A- prefix and presenting them in a separate section that follows the requirements section
- Using formatting techniques, such as bulleted lists, to enhance readability

Convergence

Whereas the ASB used, where applicable, the corresponding International Standards on Auditing as a base when drafting each clarified auditing standard, ARSC has used the extant SSARSs as a base for the clarified compilation literature. ARSC will not converge with International Standards on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*, as the objective of ISRS 4410 is not compatible with the proposed clarified SSARS *Compilation of Financial Statements*. Additionally, a corresponding international standard does not exist with respect to the proposed clarified SSARS *Association With Unaudited Financial Statements*.

Effective Date

The proposed SSARS *Association With Unaudited Financial Statements* would be effective for unaudited financial statements with which the accountant is associated on or after December 15, 2014. Early implementation is required in the circumstance described subsequently; otherwise, early implementation is permitted.

The proposed SSARSs *Compilation of Financial Statements* and *Compilation of Financial Statements—Special Considerations* would be effective for compilations of financial statements

for periods ending on or after December 15, 2014. Early implementation is required in the circumstance described subsequently; otherwise, early implementation is not permitted.

Early implementation would be required with respect to the proposed SSARs *Association With Unaudited Financial Statements, Compilation of Financial Statements, and Compilation of Financial Statements—Special Considerations* if the accountant early implements the proposed revised Interpretation No. 101-3, “Performance of Nonattest Services,” under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec 101 par. .05). The AICPA Professional Ethics Executive Committee (PEEC) is considering either a two year transition period or an effective date of December 14, 2014, with respect to the implementation of the *Activities Related to Attest Services* section of revised Interpretation No. 101-3. That section would require activities such as financial statement preparation to be subject to the requirements of Interpretation No. 101-3.

Changes From Existing Standards

The following represents what ARSC believes would be the most significant changes to extant SSARs if the proposed SSARs *Association With Unaudited Financial Statements, Compilation of Financial Statements, and Compilation of Financial Statements—Special Considerations* were issued as final SSARs.

Submission of Financial Statements

In accordance with the extant SSARs, an accountant is required to comply with the provisions of AR section 80, *Compilation of Financial Statements*, whenever the accountant is engaged to report on compiled financial statements or *submits* (defined in paragraph .04 of AR section 60 as presenting to management financial statements that the accountant has prepared) financial statements to a client or to third parties.

In June 2012, the PEEC exposed for public comment proposed revisions to Interpretation No. 101-3. Among the proposed revisions is a proposal to clarify that the preparation of financial statements is a nonattest service. ARSC is supportive of this proposed clarification because it is in harmony with how the 2011 edition of *Government Auditing Standards* (the Yellow Book) treats the preparation of financial statements. The proposed clarification would also be consistent with the views of many practitioners who believe that the preparation of financial statements is a responsibility of management and an essential part of an entity’s system of internal control.

Proposed Effect on Compilation Standards

Currently, preparation is an integral element of the applicability of AR section 80. As preparation cannot be a nonattest and attest (compilation) service simultaneously, the proposed SSAR *Compilation of Financial Statements* revises the applicability of the compilation literature so that the literature applies only when the accountant is engaged to perform a compilation service. The effect is that a compilation service would no longer include the preparation of financial statements. The preparation, in whole or in part, would be a nonattest service. Therefore, the accountant need not be concerned with issues such as who prepared the financial statements or whether the financial statements are intended to be used by third parties.

Proposed New Standard—Association With Unaudited Financial Statements

To effectively communicate the accountant's responsibilities when the accountant is associated with unaudited financial statements that the accountant has not compiled or reviewed (including when the accountant prepares unaudited financial statements that the accountant has not compiled or reviewed), the proposed SSARS *Association With Unaudited Financial Statements* establishes presumptively mandatory requirements when an accountant's name is associated with unaudited financial statements because the accountant permits the use of his or her name in a report, document, or written communication containing unaudited financial statements or an accountant is associated with unaudited financial statements because the accountant prepares, in whole or in part, financial statements even though the accountant does not append the accountant's name to the financial statements.

Requirement to Exercise Professional Judgment

Although it has been understood that an accountant should exercise professional judgment in the performance of a compilation engagement, paragraph 6 of the proposed SSARS *Compilation of Financial Statements* explicitly states the requirement. It is not anticipated that this requirement will result in a change in practice.

Requirement to Obtain a Signed Engagement Letter or Other Suitable Form of Written Communication

Although extant AR section 80 requires that the accountant document the understanding with management regarding the services to be performed for compilation engagements through a written communication with management, extant AR section 80 does not require that the written understanding be signed by either the accountant or management.

Paragraph 10 of the proposed SSARS *Compilation of Financial Statements* requires that the engagement letter or other suitable form of written communication be signed by (a) the accountant or the accountant's firm and (b) management or, if applicable, those charged with governance.

Requirement to Consider the Effect of New or Revised Information

Paragraph .13 of extant AR section 80 requires that the accountant, in circumstances when the accountant believes that the financial statements may be materially misstated, obtain additional or revised information. Paragraph 16 of the proposed SSARS *Compilation of Financial Statements* additionally requires the accountant to consider the effect of such additional or revised information on the financial statements, including whether the financial statements are materially misstated. It is not anticipated that this requirement will result in a change in practice.

Reporting on the Financial Statements

The proposed SSARS *Compilation of Financial Statements* requires the use of headings throughout the accountant's compilation report to clearly distinguish each section of the report.

Additionally, the proposed SSARS *Compilation of Financial Statements* requires that the accountant's compilation report name the city and state of the issuing office. It is not anticipated that this requirement will result in a change in practice.

The Accountant's Compilation Report on Financial Statements Prepared in Accordance With a Special Purpose Framework

The proposed SSARS *Compilation of Financial Statements* introduces the term *special purpose framework* to SSARSs. The term *special purpose framework* includes the cash-, tax-, and regulatory-bases of accounting and other bases having substantial support that have traditionally been referred to as *other comprehensive bases of accounting (OCBOA)* as well as the contractual-basis of accounting. The proposed SSARS includes several new requirements with respect to reporting on financial statements prepared in accordance with a special purpose framework, including the following:

- A requirement that the accountant consider whether the financial statements are suitably titled, and, as applicable, include a summary of significant accounting policies and adequately describe how the special purpose framework differs from generally accepted accounting principles (GAAP)
- A requirement that the accountant consider, unless the financial statements omit substantially all disclosures, when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, whether the financial statements include informative disclosures related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation
- In the case of financial statements prepared in accordance with a contractual basis of accounting, a requirement that the accountant consider whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based
- A requirement that the accountant's compilation report on financial statements prepared in accordance with a special purpose framework,
 - when management has a choice of financial reporting frameworks in the preparation of such financial statements, make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances
 - when the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information
- A requirement that the accountant's compilation report on financial statements prepared in accordance with a special purpose framework include an emphasis-of-matter or an other-matter paragraph, under an appropriate heading, that
 - indicates that the financial statements are prepared in accordance with the applicable financial reporting framework;
 - refers to
 - the note to the financial statements that describes the framework or
 - a description of the framework if the financial statements omit substantially all disclosures; and

- states that the special purpose framework is a basis of accounting other than GAAP
- A requirement that the accountant's compilation report on special purpose financial statements include an other-matter paragraph under an appropriate heading that restricts the use of the accountant's compilation report solely to those within the entity, the parties to the contract or agreement, or the regulatory agencies to whose jurisdiction the entity is subject when the special purpose financial statements are prepared in accordance with either
 - a contractual basis of accounting or
 - a regulatory basis of accounting, unless the special purpose financial statements together with the accountant's compilation report are intended for general use

Emphasis-of-Matter and Other-Matter Paragraphs in the Accountant's Compilation Report

Paragraph .25 of extant AR section 80 states that emphasis paragraphs are never required. However, the proposed SSARSs *Compilation of Financial Statements* and *Compilation of Financial Statements—Special Considerations* require the accountant to include an emphasis-of-matter or other-matter paragraph in the accountant's compilation report relating to the following matters:

- Financial statements prepared in accordance with a special purpose framework
- Reporting on prior period financial statements and the accountant's compilation report includes a changed reference to a departure from the applicable financial reporting framework
- Reporting when management revises financial statements for a subsequently discovered fact that became known to the accountant after the report release date and the accountant's compilation report on the revised financial statements differs from the accountant's compilation report on the original financial statements.

In addition, the proposed SSARS *Compilation of Financial Statements—Special Considerations* requires the accountant to include an emphasis-of-matter paragraph in the accountant's compilation report when the accountant considers it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the accountant's professional judgment, is of such importance that it is fundamental to the user's understanding of the financial statements, provided that the accountant does not believe that the financial statements may be materially misstated.

The proposed SSARS *Compilation of Financial Statements—Special Considerations* requires the accountant to include an other-matter paragraph in the accountant's compilation report when the accountant considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the accountant's professional judgment, is relevant to the users' understanding of the compilation, the accountant's responsibilities, or the accountant's compilation report.

If the accountant expects to include an emphasis-of-matter or other-matter paragraph in the accountant's compilation report, the proposed SSARS *Compilation of Financial Statements—*

Special Considerations requires the accountant to communicate with management regarding this expectation and the proposed wording of this paragraph.

Required Supplementary Information

The proposed SSARS *Compilation of Financial Statements—Special Considerations*

- defines *required supplementary information* as information that a designated accounting standard setter requires to accompany an entity's basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standard setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of that information have been established.
- defines *designated accounting standard setter* as a body designated by the Council of the AICPA to promulgate GAAP pursuant to Rule 202, *Compliance With Standards* (AICPA, *Professional Standards*, ET sec. 202 par. .01), and Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, ET sec. 203 par. .01).
- establishes a requirement that the accountant include an other-matter paragraph in the accountant's compilation report on the financial statements to refer to the required supplementary information and establishes reporting requirements when
 - the required supplementary information is included and the accountant compiled the required supplementary information.
 - the required supplementary information is included and the accountant did not compile, review, or audit the required supplementary information.
 - the required supplementary information is omitted.
 - some required supplementary information is missing and some is presented in accordance with the prescribed guidelines.
 - the accountant has identified departures from the prescribed guidelines.
 - the accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.

Guide for Respondents

ARSC is seeking comments specifically on changes resulting from applying the clarity drafting conventions and their effect on the content of the proposed SSARs.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for ARSC to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after August 31, 2012, for 1 year. Responses should be sent to Mike Glynn at mglynn@aicpa.org and should be received by August 31, 2012.

Comment Period

The comment period for this exposure draft ends on August 31, 2012.

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**PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING
AND REVIEW SERVICES**

ASSOCIATION WITH UNAUDITED FINANCIAL STATEMENTS

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Proposed Statement on Standards for Accounting and Review Services *Association With Unaudited Financial Statements*

Introduction

Scope and Applicability of This Proposed Statement on Standards for Accounting and Review Services

1. This proposed Statement on Standards for Accounting and Review Services (SSARS) addresses the accountant's responsibility when the accountant is associated with financial statements that the accountant has not compiled, reviewed, or audited (hereinafter referred to "unaudited financial statements"). (Ref: par. A1)
2. The accountant's association with unaudited financial statements that the accountant has been engaged to compile is addressed through the accountant's compilation report when the accountant has applied compilation procedures sufficient to permit the accountant to report on those unaudited financial statements as described in the proposed SSARS *Compilation of Financial Statements*. The accountant's association with unaudited financial statements that the accountant has been engaged to review is addressed through the accountant's review report when the accountant has applied review procedures sufficient to permit the accountant to report on those unaudited financial statements as described in the proposed SSARS *Review of Financial Statements*. Statements on Auditing Standards provide guidance in connection with audited financial statements and reviewed interim financial information when the conditions in paragraph 2 of the proposed SSARS *Review of Financial Statements* are met.

Effective Date

3. This proposed SSARS is effective for unaudited financial statements with which the accountant is associated on or after December 15, 2014. Early implementation is required if the accountant early implements the proposed revised Interpretation No. 101-3, "Performance of Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec 101 par. .05). Otherwise, early implementation is permitted.

Objective

4. The objective of the accountant is to prevent misinterpretation regarding the degree of responsibility the accountant assumes when the accountant's name is associated with unaudited financial statements that the accountant has not compiled or reviewed.

Definitions

5. For purposes of SSARSs, the following terms have the meanings attributed as follows:
Association with unaudited financial statements. An accountant is associated with unaudited financial statements when
 - a. the accountant permits the use of the accountant's name in a report, document, or written communication containing unaudited financial statements even

though the accountant did not prepare, in whole or in part, such financial statements, or

- b.* the accountant prepares, in whole or in part, financial statements, even though the accountant does not append the accountant's name to the financial statements. (Ref: par. A2)

Requirements

Association With Unaudited Financial Statements

6. If an accountant is requested to be associated with unaudited financial statements for the reasons described in paragraph 5*a*, the accountant should
 - a.* read the unaudited financial statements.
 - b.* consider whether the unaudited financial statements appear free from material inconsistencies with other knowledge or information of which the accountant may be aware.
 - c.* if after performing the procedures in paragraphs 6*a* and 6*b*, the accountant decides to permit the use of the accountant's name in a report, document, or written communication containing the statements, the accountant should request that the entity clearly indicate that the financial statements were not compiled, reviewed, or audited. (Ref: par. A3–A5)
7. When the accountant is associated with unaudited financial statements for the reasons described in paragraph 5*b*, the accountant should request that the entity clearly indicate that the financial statements were not compiled, reviewed, or audited. (Ref: par. A3–A4)

Application and Other Explanatory Material

Scope and Applicability of This Proposed SSARS (Ref: par. 1)

- A1. This proposed SSARS does not apply to data, such as tax returns, prepared solely for submission to taxing authorities.

Definitions (Ref: par. 5)

- A2. Although the accountant may prepare the financial statements in whole or in part, the financial statements are representations of management, and the fairness of their presentation in accordance with the applicable financial reporting framework is management's responsibility.

Association With Unaudited Financial Statements (Ref: par. 6*c* and 7)

- A3. The entity can indicate that the financial statements were not compiled, reviewed, or audited by an indication on each page of the unaudited financial statements or with a clear statement in the document or communication containing the unaudited financial statements. Such indication may read "These financial statements have not been compiled, reviewed, or audited."

- A4.** In addition to the requirement in paragraphs 6c and 7, an accountant is not precluded from attaching a report to unaudited financial statements that the accountant has prepared, in whole or in part. If the accountant decides to attach such a report, an example of report wording that the accountant may use to clearly indicate that the accountant has not compiled, reviewed, or audited the financial statements would be as follows:

The financial statements of XYZ Company as of and for the year ended December 31, 20XX, were not compiled, reviewed, or audited by me (us) and, accordingly, I (we) do not express an opinion or any form of assurance on them.

- A5.** In situations when the accountant's name has been used without the accountant's permission, actions that the accountant may consider include
- a.* advising the entity that the use of the accountant's name has not been permitted,
 - b.* consulting with the accountant's legal counsel, and
 - c.* reporting to applicable law enforcement authorities.

**PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND
REVIEW SERVICES**

COMPILATION OF FINANCIAL STATEMENTS

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Proposed Statement on Standards for Accounting and Review Services *Compilation of Financial Statements*

Introduction

Scope of This Proposed Statement on Standards for Accounting and Review Services

1. This proposed Statement on Standards for Accounting and Review Services (SSARS) addresses the accountant's responsibilities when engaged to compile financial statements. This proposed SSARS also applies, adapted as necessary in the circumstances, to other historical financial information regarding which an accountant has been requested to issue a compilation report. (Ref: par. A1–A2)

Effective Date

2. This proposed SSARS is effective for compilations of financial statements for periods ending on or after December 15, 2014. Early implementation is required if the accountant early implements the proposed revised Interpretation No. 101-3, "Performance of Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec 101 par. .05). Otherwise, early implementation is not permitted.

Objectives

3. The accountant's objectives in a compilation engagement are to
 - a. read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with the applicable financial reporting framework and (Ref: par. A3)
 - b. report in accordance with the requirements of this proposed SSARS.
4. Although a compilation engagement is not an assurance engagement, it is an attest engagement.¹

Definitions

5. For purposes of SSARSs, the following terms have the meanings attributed as follows:

Applicable financial reporting framework. The financial reporting framework adopted by management and, when appropriate, those charged with governance in the preparation and fair presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

Assurance engagement. An engagement in which an accountant issues a report designed to enhance the degree of confidence of third parties and management about the

¹ See paragraph .01 of ET section 92, *Definitions* (AICPA, *Professional Standards*), of the AICPA Code of Professional Conduct for the definition of *attest engagement*.

outcome of an evaluation or measurement of financial statements (subject matter) against an applicable financial reporting framework (criteria).

Comparative financial statements. A complete set of financial statements for one or more prior periods included for comparison with the financial statements of the current period.

Compilation or compilation service. An engagement in which the accountant reads the financial statements and reports in accordance with this proposed SSARS. A compilation or compilation service does not require the accountant to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with the applicable financial reporting framework.

Compile. The act of performing a compilation or compilation service.

Financial reporting framework. A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements, for example, U.S. generally accepted accounting principles (GAAP), International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework.

Financial statements. A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term *financial statements* ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement or financial statements without notes.

Fraud. An intentional act that results in a misstatement in financial statements.

Generally accepted accounting principles. Reference to *GAAP* in SSARSs means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA pursuant to Rule 202, *Compliance With Standards* (AICPA, *Professional Standards*, ET sec. 202 par. .01), and Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, ET sec. 203 par. .01), of the AICPA Code of Professional Conduct.

Management. The person(s) with executive responsibility for the conduct of the entity's operations. For some entities, management includes some or all of those charged with governance, for example, executive members of a governance board or an owner-manager.

Noncompliance. Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity or on its behalf by those charged with governance, management, or employees. *Noncompliance* does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management, or employees of the entity.

Nonissuer. Any entity not subject to the Sarbanes-Oxley Act of 2002 or the rules of the U.S. Securities and Exchange Commission.

Professional judgment. The application of relevant training, knowledge, and experience, within the context provided by professional standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

Special purpose framework. A financial reporting framework other than GAAP that is one of the following bases of accounting:

- a. **Cash-basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).
- b. **Tax-basis.** A basis of accounting that the entity uses to file its tax return.
- c. **Regulatory-basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).
- d. **Contractual-basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.
- e. **Other basis having substantial support.** A basis of accounting that the entity uses to prepare the financial statements that is based on a definite set of criteria having substantial support.

The cash, tax, and regulatory bases of accounting and other basis having substantial support are commonly referred to as *other comprehensive bases of accounting*.

Those charged with governance. The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel, for example, executive members of a governance board or an owner manager.

Updated report. A report issued by a continuing accountant that takes into consideration information that the continuing accountant becomes aware of during the continuing accountant's current engagement and that re-expresses the continuing accountant's previous conclusions or, depending on the circumstances, expresses different conclusions on the financial statements of a prior period as of the date of the continuing accountant's current report.

Requirements

Professional Judgment

6. The accountant should exercise professional judgment in conducting a compilation engagement. (Ref: par. A4–A5)

Engagement Acceptance and Continuance

7. An accountant should accept an engagement only if preliminary knowledge of the engagement circumstances indicates that ethical requirements regarding professional competence will be satisfied.

Establishing an Understanding With Management

8. The accountant should establish an understanding with management regarding the services to be performed for compilation engagements.² (Ref: par. A6–A7)

Documenting the Understanding With Management

9. The understanding with management should be documented in an engagement letter or other suitable form of written communication with management and should include the following: (Ref: par. A8–A12)
 - a. The objectives of the engagement
 - b. The responsibilities of management
 - c. The responsibilities of the accountant
 - d. The limitations of the engagement
 - e. The effect of any independence impairments on the expected form of the accountant's compilation report, if applicable
10. The engagement letter or other suitable form of written communication should be signed by
 - a. the accountant or the accountant's firm and
 - b. management or, if applicable, those charged with governance.

Understanding of the Industry

11. The accountant should possess or obtain an understanding of the industry in which the entity operates, including the accounting principles and practices generally used in the industry sufficient to enable the accountant to compile financial statements that are appropriate in form for an entity operating in that industry. (Ref: par. A13)

Knowledge of the Entity

12. The accountant should obtain knowledge about the entity, including an understanding of
 - a. the entity's business and (Ref: par. A14)
 - b. the accounting principles and practices used by the entity. (Ref: par. A15)

² Paragraph .28 of QC section 10, *A Firm's System of Quality Control* (AICPA, *Professional Standards*).

13. In obtaining the understanding of the entity's accounting policies and practices, the accountant should be alert to accounting policies and procedures that, based on the accountant's knowledge of the industry, are unusual.

Reading the Financial Statements

14. The accountant must read the financial statements and consider whether any information has come to the accountant's attention to indicate that such financial statements are not appropriate in form and free from obvious material errors. (Ref: par. A16–A20)

Other Compilation Procedures

15. If, during the performance of the compilation engagement, the accountant becomes aware that information supplied by the entity is incorrect, incomplete, or otherwise unsatisfactory or that fraud or noncompliance with a law or regulation may have occurred, the accountant should communicate the matters to management and request that management consider the effect of such information on the financial statements and communicate the results of such consideration to the accountant. (Ref: par. A21–A23)
16. In circumstances when the accountant believes that the financial statements may be materially misstated, the accountant should obtain additional or revised information and consider the effect of such additional or revised information on the financial statements, including whether the financial statements may be materially misstated. (Ref: par. A18–A20)
17. If the entity refuses to provide additional or revised information, the accountant should withdraw from the engagement.

Documentation in a Compilation Engagement

18. The accountant should prepare documentation in connection with each compilation engagement in sufficient detail to provide a clear understanding of the work performed including the following: (Ref: par. A24–A27)
 - a. The engagement letter or other suitable form of written documentation with management, as described in paragraphs 8–9 (Ref: par. A9–A12)
 - b. Any findings or issues that, in the accountant's professional judgment, are significant (Ref: par. A27)
 - c. Communications about fraud or noncompliance with laws and regulations made to management, those charged with governance, regulators, and others as required by paragraph 54
 - d. A copy of the compiled financial statements and the accountant's compilation report, as issued

Reporting on the Financial Statements

19. The accountant's compilation report should be in writing. (Ref: par. A28–A29 and A39)
20. In preparing a report on compiled financial statements, the accountant should consider
 - a. the results of reading the financial statements, as required by paragraph 14;

- b. the results of other compilation procedures, if any, performed in accordance with paragraphs 15–17; and
- c. whether there are any material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.

Accountant's Compilation Report

Title

21. The accountant's compilation report should have a title that clearly indicates that it is the accountant's compilation report. (Ref: par. A30)

Addressee

22. The accountant's compilation report should be addressed as appropriate in the circumstances of the engagement. (Ref: par. A31)

Introductory Paragraph

23. The introductory paragraph in the accountant's compilation report should (Ref: par. A32–A34)
- a. identify the entity whose financial statements have been compiled;
 - b. state that the financial statements have been compiled;
 - c. identify the title of each statement that the financial statements comprise and the related notes;
 - d. specify the date or period covered by each financial statement that the financial statements comprise; and
 - e. include a statement that the accountant has not audited or reviewed the financial statements and, accordingly, does not express an opinion or provide any assurance about whether the financial statements are in accordance with the applicable financial reporting framework.

Management's Responsibility for the Financial Statements

24. The accountant's compilation report should include a section with the heading "Management's Responsibility for the Financial Statements."
25. The accountant's compilation report should describe management's responsibility for the preparation and fair presentation of the financial statements. The description should include an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. (Ref: par. A35)

Accountant's Responsibility

26. The accountant's compilation report should include a section with the heading "Accountant's Responsibility."
27. The accountant's compilation report should state that the responsibility of the accountant is to report on the financial statements based on the compilation. (Ref: par. A36)
28. The accountant's compilation report should state that the accountant compiled the financial statements in accordance with SSARs promulgated by the Accounting and Review Services Committee of the AICPA. (Ref: par. A37–A39)
29. The accountant's report should state that the objective of a compilation engagement is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with the applicable financial reporting framework, and to report in accordance with the requirements of SSARs.

Signature of the Accountant

30. The accountant's compilation report should include the manual or printed signature of the accounting firm or the accountant, as appropriate.

Accountant's Address

31. The accountant's compilation report should name the city and state of the issuing office.

Date of the Accountant's Compilation Report

32. The accountant's compilation report should be dated no earlier than the date on which
 - a. the accountant completed the required consideration in paragraph 20; and
 - b. all of the financial statements that are identified in the accountant's compilation report, including the related notes, if applicable, have been prepared and management has asserted that they have taken responsibility for those financial statements.

Accountant's Compilation Report on Financial Statements Prepared in Accordance With a Special Purpose Framework

33. In a compilation of financial statements prepared in accordance with a special purpose framework, the accountant should consider whether the financial statements
 - a. are suitably titled; and, as applicable (Ref: par. A40)
 - b. include a summary of significant accounting policies; and (Ref: par. A41)
 - c. adequately describe how the special purpose framework differs from GAAP. The effects of these differences need not be quantified. (Ref: par. A42)
34. Unless the entity elects to omit substantially all disclosures, in a compilation of financial statements prepared in accordance with a special purpose framework, when the financial

statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, the accountant should consider whether the financial statements include informative disclosures related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation. (Ref: par. A43)

35. In the case of financial statements prepared in accordance with a contractual basis of accounting, the accountant should consider whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.
36. The accountant's compilation report on financial statements prepared in accordance with a special purpose framework should,
 - when management has a choice of financial reporting frameworks in the preparation of such financial statements, make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
 - when the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. (Ref: par. A44)
37. The accountant's compilation report on financial statements prepared in accordance with a special purpose framework should include an emphasis-of-matter or an other-matter paragraph, under an appropriate heading, that (Ref: par. A45–A46)
 - indicates that the financial statements are prepared in accordance with the applicable financial reporting framework;
 - refers to the note to the financial statements that describes the framework, if applicable; and
 - states that the special purpose framework is a basis of accounting other than GAAP.
38. The accountant's compilation report on special purpose financial statements should include, in accordance with paragraph 7 of the proposed SSARS *Compilation of Financial Statements—Special Considerations*, an *other-matter* paragraph, under an appropriate heading, that, in accordance with paragraphs 14–15 of the proposed SSARS *Compilation of Financial Statements—Special Considerations*, restricts the use of the accountant's compilation report solely to those within the entity, the parties to the contract or agreement, or the regulatory agencies to whose jurisdiction the entity is subject when the special purpose financial statements are prepared in accordance with either
 - a contractual basis of accounting or
 - a regulatory basis of accounting, unless the special purpose financial statements together with the accountant's compilation report are intended for general use.

Comparative Financial Statements

39. Comparative financial statements may be required by the applicable financial reporting framework, or management may elect to provide such information. When comparative financial statements are presented, the accountant's compilation report should refer to each period for which financial statements are presented. (Ref: par. A47)
40. The accountant should not issue a report on comparative financial statements when statements for one or more, but not all, of the periods presented omit substantially all of the disclosures required by an applicable financial reporting framework. (Ref: par. A47–A48)

Updating the Report

41. When reporting on all periods presented, a continuing accountant should update the report on one or more prior periods presented on a comparative basis with those of the current period. The accountant's report on comparative financial statements should not be dated earlier than the date that the accountant completed the required consideration in paragraph 20 with respect to the most recent compilation engagement. (Ref: par. A49–A50)
42. When issuing an updated report, the continuing accountant should consider information that the accountant has become aware of during the compilation of the current period financial statements.

Compilation Procedures When Updating the Report

43. The accountant should consider whether
 - a. the comparative financial statements or comparative financial information agree with the amounts and other disclosures presented in the prior period or, when appropriate, have been restated for the correction of a material misstatement or adjusted for the retrospective application of an accounting principle, and
 - b. the accounting principles reflected in the comparative financial statements or comparative financial information are consistent with those applied in the current period or when there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed, if applicable.
44. When reporting on prior period financial statements in connection with the compilation of the current period financial statements, if the accountant's report on such prior period financial statements contains a changed reference to a departure from the applicable financial reporting framework, the accountant should disclose the following matters in an emphasis-of-matter or an other-matter paragraph in accordance with paragraphs 5–8 of the proposed SSARS *Compilation of Financial Statements—Special Considerations*:
 - a. The date of the accountant's previous report
 - b. The substantive reasons that caused the reference to be changed
 - c. When applicable, that the financial statements of the prior period have been changed (Ref: par. A51–A52)

Reporting When the Accountant Is Not Independent

45. When the accountant is issuing a report with respect to a compilation of financial statements for an entity, with respect to which the accountant is not independent, the accountant's report should be modified by including an other-matter paragraph indicating the accountant's lack of independence. (Ref: par. A53–A56)
46. If the accountant elects to disclose the reasons independence is impaired, the accountant should ensure that all reasons are included in the description.

Reporting on Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework

47. The accountant should not compile financial statements that omit substantially all disclosures unless the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements.
48. When reporting on financial statements that omit substantially all the disclosures required by the applicable financial reporting framework, the accountant should include, after the paragraph describing the accountant's responsibility, an other-matter paragraph in the compilation report that includes the following elements: (Ref: par. A57–A60)
 - a. A statement that management has elected to omit substantially all the disclosures (and the statement of cash flows, if applicable) required by the applicable financial reporting framework (or ordinarily included in the financial statements if the financial statements are prepared in accordance with a special purpose framework).
 - b. A statement that if the omitted disclosures (and statement of cash flows, if applicable) were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows (or equivalent for presentations other than accounting principles generally accepted in the United States of America)
 - c. A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters
49. When the entity wishes to include disclosures about only a few matters in the form of notes to such financial statements, such disclosures should be labeled "Selected Information—Substantially All Disclosures Required by [*identify the applicable financial reporting framework (for example, Accounting Principles Generally Accepted in the United States of America)*] Are Not Included." The use of this label is precluded when the financial statements include more than a few required disclosures.
50. The omission of one or more notes, when substantially all other disclosures are presented, should be treated in a compilation report like any other departure from the applicable financial reporting framework, and the nature of the departure and its effects, if known, should be disclosed in accordance with paragraphs 9–13 of the proposed SSARS *Compilation of Financial Statements—Special Considerations*.

Communicating to Management and Others

51. When evidence or information comes to the accountant's attention during the performance of compilation procedures that fraud may have occurred, that matter should be brought to the attention of the appropriate level of management. (Ref: par. A61)
52. When evidence or information comes to the accountant's attention during the performance of compilation procedures that noncompliance with laws or regulations may have occurred, that matter should be brought to the attention of the appropriate level of management unless, pursuant to an agreement with management and those charged with governance, if applicable, the nature and amount of the noncompliance is not considered material and, thus, need not be communicated. (Ref: par. A61–A62 and A65)
53. When matters regarding fraud or noncompliance with laws or regulations involve senior management, the accountant should report the matter to an individual or group at a higher level within the entity, such as those charged with governance. (Ref: par. A63–A65)
54. The accountant should document the communication made in accordance with paragraphs 51–53.
55. When matters regarding fraud or noncompliance with laws or regulations involve an owner of the business, the accountant should consider withdrawing from the engagement.

Application and Other Explanatory Material

Scope of This Proposed SSARS (Ref: par. 1)

- A1. The preparation of financial statements, in whole or in part, is a nonattest service subject to the provisions of Interpretation No. 101-3, "Performance of Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05), of the AICPA Code of Professional Conduct.
- A2. Examples of other historical financial information that an accountant may be engaged to compile include, but are not limited to, the following:
 - Specified elements, accounts, or items of a financial statement such as schedules of rentals, royalties, profit participation, or provision for income taxes
 - Supplementary information
 - Required supplementary information
 - Financial information contained in a tax return

Objectives (Ref: par. 3)

- A3. A compilation engagement differs significantly from a review or an audit engagement. A compilation engagement does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review engagement. Additionally, a compilation engagement does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit engagement. Therefore, a compilation

engagement does not provide a basis for obtaining or providing any assurance regarding the financial statements.

Professional Judgment (Ref: par. 6)

- A4. Professional judgment involves the application of relevant training, knowledge, and experience, within the context provided by compilation, accounting, and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the compilation engagement.
- A5. The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known to the accountant up to the date of the accountant's compilation report, including
- knowledge acquired from performance of nonattest services undertaken for the entity, when applicable (for example, bookkeeping or tax services).
 - the accountant's understanding of the entity's business and operations, including its accounting system, and of the application of the applicable financial reporting framework in the industry in which the entity operates.

Engagement Acceptance and Continuance

Establishing an Understanding With Management (Ref: par. 8)

- A6. Both management and the accountant have an interest in documenting the agreed-upon terms of the compilation engagement before the commencement of the compilation engagement to help avoid misunderstandings with respect to the compilation engagement. For example, it reduces the risk that management may inappropriately rely on or expect the accountant to protect management against certain risks or to perform certain functions, including those that are management's responsibility.
- A7. In some cases, the accountant may establish an understanding regarding the services to be performed with those charged with governance.

Documenting the Understanding With Management (Ref: par. 9 and 18)

- A8. A contract is another suitable form of written communication. The understanding with management regarding the services to be performed for compilation engagements is required by paragraph 9 to be in a documented form, and, accordingly, a verbal understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for compilation engagements.
- A9. The written communication documenting the terms of the engagement with management regarding a compilation of financial statements may use the following wording to include the information necessary to meet the requirements of paragraph 9:
- The objective of a compilation engagement is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with [the

applicable financial reporting framework], and to report in accordance with the requirements of SSARSs.

- The accountant utilizes information that is the representation of management (owners) without undertaking to obtain or provide any assurance whether there are material modifications necessary in order for the statements to be in conformity with the applicable financial reporting framework.
 - Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Management is responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
 - Management is responsible for preventing and detecting fraud.
 - Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
 - Management is responsible for making all financial records and related information requested available to the accountant.
 - The accountant is responsible for conducting the engagement in accordance with SSARSs promulgated by the Accounting and Review Services Committee of the AICPA.
 - A compilation engagement differs significantly from a review or an audit engagement. A compilation engagement does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review engagement. Additionally, a compilation engagement does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit engagement. Accordingly, the accountant will not express an opinion or provide any assurance regarding the financial statements.
 - The engagement cannot be relied upon to disclose errors, fraud, or noncompliance with laws and regulations. However, the accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the performance of compilation procedures that fraud or noncompliance with laws and regulations may have occurred.
- A10. Although the accountant may prepare the financial statements, in whole or in part, the financial statements are representations of management, and the fairness of their presentation in accordance with the applicable financial reporting framework is management's responsibility.
- A11. An understanding with management also may include other matters, such as the following:
- Fees and billings

- Any limitation of or other arrangements regarding the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements)
- Conditions under which access to compilation documentation may be granted to others
- Additional services to be provided relating to regulatory requirements

A12. An illustration of an engagement letter for a compilation of financial statements is presented in exhibit A, "Illustrative Engagement Letter."

Understanding of the Industry (Ref: par. 10)

A13. The requirement that the accountant possess a level of knowledge of the industry in which the entity operates does not prevent the accountant from accepting a compilation engagement for an entity in an industry with which the accountant has no previous experience. It does, however, place upon the accountant a responsibility to obtain the required level of knowledge. The accountant may do so, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals knowledgeable about the industry.

Knowledge of the Entity (Ref: par. 12)

A14. The accountant may obtain knowledge of the entity through inquiry of the entity's personnel, the review of documents prepared by the entity, or experience with the entity or the entity's industry. Such knowledge may include

- an understanding of the entity's business.
- an understanding of the accounting principles and practices used by the entity in measuring, recognizing, recording, and disclosing all significant accounts and disclosures in the financial statements.

A15. The accountant's understanding of the entity's business encompasses a general understanding of the client's organization; its operating characteristics; and the nature of its assets, liabilities, revenues, and expenses.

Reading the Financial Statements (Ref: par. 14)

A16. The accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity.

A17. In the context of reading the financial statements, the term *error* refers to mistakes in the preparation of financial statements, including arithmetical or clerical mistakes, and mistakes in the application of accounting principles, including inadequate disclosure.

Materiality (Ref: par. 14 and 16)

A18. Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that

- misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement or a combination of both; and
- judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.

The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

A19. Such a discussion, if present in the applicable financial reporting framework, provides a frame of reference to the accountant in determining, as required by paragraph 20, whether there are any material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework. If the applicable financial reporting framework does not include a discussion of the concept of materiality, the characteristics referred to in paragraph A18 provide the accountant with such a frame of reference.

A20. The accountant's determination of materiality is a matter of professional judgment and is affected by the accountant's perception of the financial information needs of users of the financial statements. In this context, it is reasonable for the accountant to assume that users

- a. have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
- b. understand that financial statements are prepared, presented, and reviewed to levels of materiality;
- c. recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
- d. make reasonable economic decisions on the basis of the information in the financial statements.

Other Compilation Procedures (Ref: par. 17)

A21. The accountant may become aware that information supplied by the entity is incorrect, incomplete, or otherwise unsatisfactory or that fraud or an illegal act may have occurred as a result of

- the financial statements on their face,
- inquiries or other procedures the accountant may have performed, or

- knowledge the accountant gained from prior engagements.

Characteristics of Fraud

- A22.** Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- A23.** Although fraud is a broad legal concept, for the purposes of SSARSS, the accountant is primarily concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the accountant—misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the accountant may suspect or, in rare cases, identify the occurrence of fraud, the accountant does not make legal determinations of whether fraud has actually occurred.

Documentation in a Compilation Engagement (Ref: par. 18)

- A24.** Documentation provides the principal support for the representation in the accountant's compilation report that the accountant performed the compilation engagement in accordance with SSARSS.
- A25.** The accountant is not precluded from supporting the compilation report by other means in addition to the compilation documentation. Such other means might include written documentation contained in other engagement files or quality control files (for example, consultation files) and, in limited situations, oral explanations. However, oral explanations, on their own, do not constitute sufficient compilation documentation.
- A26.** The form, content, and extent of documentation depend on the circumstances of the engagement, the methodology and tools used, and the accountant's professional judgment.
- A27.** Findings or issues that, in the accountant's professional judgment are significant may include the results of compilation procedures that indicate that the financial statements could be materially misstated, including actions taken to address such findings and, to the extent that the accountant had any questions or concerns as a result of the compilation procedures performed, how those issues were resolved.

Reporting on the Financial Statements (Ref: par. 19–38)

- A28.** A written report encompasses reports issued in hard copy format and those using an electronic medium.
- A29.** Financial statements that the accountant has compiled may become unattached from the accountant's compilation report. To minimize the possibility that a user of the compiled financial statements may infer, through the accountant's association with the compiled financial statements, an unintended level of reliance on the compiled financial statements, the accountant may consider including a reference on each page of the compiled financial statements to the accountant's compilation report. Examples of references to the accountant's compilation report included on each page of the compiled financial

statements are "See accountant's compilation report" and "See independent accountant's compilation report."

Accountant's Compilation Report (Ref: par. 21–28)

Title

- A30.** The title may reflect that the accountant is independent, if applicable. Appropriate titles would be "Accountant's Compilation Report" or "Independent Accountant's Compilation Report."

Addressee

- A31.** The accountant's compilation report is normally addressed to those for whom the report is prepared. The report may be addressed to the entity whose financial statements are being compiled or to those charged with governance. A report on the financial statements of an unincorporated entity may be addressed as circumstances dictate (for example, to the partners, general partner, or proprietor). Occasionally, an accountant may be retained to compile the financial statements of an entity that is not a client; in such a case, the report may be addressed to the client and not to those charged with governance of the entity whose financial statements are being compiled.

Introductory Paragraph

- A32.** The introductory paragraph states, for example, that the accountant has "compiled the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements." If the financial statements include a separate statement of changes in stockholders' equity accounts or a separate statement of comprehensive income, paragraph 23c requires such statements to be identified in the introductory paragraph of the report as a statement to which the financial statements are comprised.
- A33.** When the accountant is aware that the compiled financial statements will be included in a document that contains other information, such as an annual report, the accountant may consider, if the form of presentation allows, identifying the page numbers on which the compiled financial statements are presented. This helps users identify the financial statements to which the accountant's compilation report relates.
- A34.** The identification of the title for each statement that the financial statements comprise may be achieved by referencing the table of contents.

Management's Responsibility

- A35.** AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*), explains the premise relating to the responsibilities of management and, when appropriate, those charged with governance on which an engagement in accordance with SSARs is conducted.³ Management, and when

³ Paragraphs .30–.33 of AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*).

appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation. Management also accepts responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the accountant's compilation report includes reference to both responsibilities because it helps explain to users the premise on which a compilation engagement is conducted.

Accountant's Responsibility

- A36. The accountant's compilation report states that the accountant's responsibility is to report on the financial statements based on the compilation in order to contrast it to management's responsibility for the financial statements.
- A37. The reference to the standards used conveys to the users of the accountant's compilation report that the compilation has been conducted in accordance with established standards.
- A38. The accountant is not permitted to represent compliance with SSARSs in the accountant's compilation report unless the accountant has complied with the requirements of this proposed SSARS.
- A39. Exhibit B, "Illustrations of Accountant's Compilation Reports on Financial Statements," contains illustrations of accountant's compilation reports on financial statements incorporating the elements required by paragraphs 21–32.

Accountant's Compilation Report on Financial Statements Prepared in Accordance With a Special Purpose Framework (Ref: par. 33–37)

- A40. Terms such as *balance sheet*, *statement of financial position*, *statement of income*, *statement of operations*, and *statement of cash flows*, or similar unmodified titles, are generally understood to be applicable only to financial statements that are intended to present financial position, results of operations, or cash flows in accordance with GAAP. Accordingly, the accountant is required by paragraph 33a to consider whether the financial statements are suitably titled. For example:
- A cash basis financial statement might be titled *Statement of Cash Receipts and Disbursements*.
 - Financial statements prepared in accordance with the tax basis of accounting might be titled
 - *Statement of Assets, Liabilities, and Equity—Tax-Basis*,
 - *Statement of Operations—Tax-Basis*, or
 - *Statement of Revenue and Expenses—Tax-Basis*.
 - A financial statement prepared in accordance with a regulatory basis of accounting might be titled *Statement of Income—Regulatory Basis*.
- A41. Financial statements prepared in accordance with a special purpose framework need not include a summary of significant accounting policies or a description about how the

special purpose framework differs from GAAP if such financial statements omit substantially all disclosures and the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements.

- A42.** The description of how the special purpose framework differs from GAAP ordinarily only includes the material differences between GAAP and the special purpose framework. For example, if several items are accounted for differently in accordance with the special purpose framework than they would be in accordance with GAAP, but only the differences in how depreciation is calculated are material, a brief description of the depreciation differences is all that would be necessary, and the remaining differences need not be described. The differences need not be quantified.
- A43.** When financial statements prepared in accordance with a special purpose framework contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, informative disclosures similar to those required by GAAP are necessary to achieve fair presentation. For example, financial statements prepared on a tax basis or on a modified cash basis of accounting usually reflect depreciation, long-term debt, and owner's equity. Thus, the informative disclosures for depreciation, long-term debt, and owner's equity in such financial statements would be comparable to those in financial statements prepared in accordance with GAAP.
- A44.** When the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, the accountant is required by paragraph 36 to describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. This is necessary to avoid misunderstandings when the financial statements are used for purposes other than those for which they were intended. The note to the financial statements may also describe any significant interpretations of the contract on which the financial statements are based.
- A45.** When use of the accountant's compilation report is restricted, the intended users are the specified parties. The restriction on use of the accountant's compilation report is necessary due to the nature of the report and the potential for the report to be misunderstood when taken out of the context in which it was intended to be used. For example, special purpose financial statements prepared in accordance with a contractual basis of accounting are developed for and directed only to the parties to the contract or agreement. Paragraphs 16–17 of the proposed *SSARS Compilation of Financial Statements—Special Considerations* address adding other parties as specified parties.
- A46.** In the case of special purpose financial statements prepared in accordance with a cash or tax basis of accounting, the accountant may consider it necessary in the circumstances of the engagement to restrict the use of the accountant's compilation report.

Comparative Financial Statements (Ref: par. 39–44)

- A47.** The level of information included for the prior periods in comparative financial statements is comparable with that of financial statements of the current period.
- A48.** Compiled financial statements that omit substantially all of the disclosures required by an applicable financial reporting framework are not comparable to financial statements that include such disclosures.

Updating the Report

- A49. An updated report is issued in conjunction with the continuing accountant's compilation report on the current period financial statements.

Other Considerations Relating to Comparative Financial Statements

- A50. If one firm of accountants merges with another firm, and the new firm becomes the accountant of a client of one of the two former firms, the new firm may issue a compilation report on the financial statements of the prior period(s), as well as on the current period financial statements. In such circumstances, paragraphs 41–44 apply. The new firm may indicate in the accountant's compilation report or as part of the signature that a merger took place and may name the firm of accountants that was merged with it.

Continuing Accountant's Changed Reference to a Departure From the Applicable Financial Reporting Framework

- A51. When reporting on the prior period financial statements in connection with the current period's compilation, the accountant's report may be different from the previously issued report if the accountant becomes aware of circumstances or events that materially affect the financial statements of a prior period during the course of the compilation of the current period. In some circumstances, the accountant may have additional reporting responsibilities designed to prevent future reliance on the accountant's previously issued report on the prior period financial statements in accordance with paragraphs 26–27 of the proposed SSARS *Compilation of Financial Statements—Special Considerations*.
- A52. A changed reference to a departure from an applicable financial reporting framework includes the removal of a prior reference or the inclusion of a new reference.

Reporting When the Accountant Is Not Independent (Ref: par. 45)

- A53. The AICPA Code of Professional Conduct provides guidance with respect to independence.
- A54. An example of a disclosure indicating the accountant's lack of independence would be as follows:

I am (We are) not independent with respect to XYZ Company.

- A55. The accountant is neither required to nor precluded from describing the reason(s) that independence is impaired. The following are examples of descriptions the accountant may use:
- I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (a member of the engagement team) had a direct financial interest in XYZ Company.
 - I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because an individual of my immediate family (an immediate family member of one of the members of the engagement team) was employed by XYZ Company.

- I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (we) performed certain accounting services [*the accountant may include a specific description of those services*] that impaired my (our) independence.

A56. Exhibit B includes illustrative examples of accountant's compilation reports when the accountant's independence has been impaired.

Reporting on Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework (Ref: par. 48)

A57. Financial Accounting Standards Board *Accounting Standards Codification 220, Comprehensive Income*, requires the display of comprehensive income when a full set of financial statements is presented in conformity with accounting principles generally accepted in the United States of America. If the display of comprehensive income is omitted, that omission would be identified in the accountant's compilation report. The following is suggested modified wording (shown in *italic*) to the paragraph in the compilation report:

Management has elected to omit substantially all the disclosures, [*the statement of cash flows, if omitted*] and the display of comprehensive income required by accounting principles generally accepted in the United States of America. If the omitted disclosures, [*the statement of cash flows, if omitted*] and the display of comprehensive income were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

A58. If the accountant compiles financial statements that include substantially all disclosures required by accounting principles generally accepted in the United States of America but omit the display of comprehensive income or if an element of comprehensive income has not been computed, for example, unrealized gains and losses arising from investments in marketable securities classified as "available for sale," a departure from accounting principles generally accepted in the United States of America may exist and paragraphs 9–13 of the proposed SSARS *Compilation of Financial Statements—Special Considerations* apply.

A59. Disclosure of items, such as an uncertainty, is not required in financial statements in which substantially all the disclosures required by the applicable financial reporting framework are omitted. Users of such compiled financial statements are adequately warned of the limitations of the financial statements by the report language required by paragraph 48.

A60. Exhibit B contains examples of compilation reports when substantially all disclosures required by an applicable financial reporting framework are omitted.

Communicating to Management and Others (Ref: par. 51–55)

A61. Whether an act is, in fact, fraudulent or illegal is a legal determination that is ordinarily beyond the accountant's professional competence. Nevertheless, the accountant's training, experience, and understanding of the client and its industry may provide a basis for

recognition that some client acts coming to the accountant's attention may be fraudulent or illegal.

- A62. The communication of matters involving identified or suspected noncompliance may describe the act of identified or suspected noncompliance, the circumstances of its occurrence, and the effect on the financial statements.
- A63. The disclosure of any evidence or information that comes to the accountant's attention during the performance of compilation procedures that fraud or noncompliance with laws or regulations may have occurred to parties other than the client's senior management (or those charged with governance, if applicable) ordinarily is not part of the accountant's responsibility and, ordinarily, would be precluded by the accountant's ethical or legal obligations of confidentiality.
- A64. A duty to disclose to parties outside of the entity may exist in the following circumstances:
 - a. To comply with certain legal and regulatory requirements
 - b. In response to a subpoena
- A65. Because potential conflicts between the accountant's ethical and legal obligations for confidentiality of client matters may be complex, the accountant may wish to consult with legal counsel before discussing matters covered by paragraphs 51–53 with parties outside the client.

A66.

Exhibit A—Illustrative Engagement Letter

The following is an example of an engagement letter for a compilation of financial statements prepared in accordance with accounting principles generally accepted in the United States of America. This engagement letter is not authoritative but is intended as an illustration that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances and is drafted to refer to the compilation of financial statements for a single reporting period. The accountant may seek legal advice about whether a proposed letter is suitable.

To the appropriate representative of management of ABC Company:⁴

You⁵ have requested that we compile the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements. We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

[The objective of the compilation engagement]

The objective of a compilation is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with accounting principles generally accepted in the United States of America, and to report in accordance with Statements on Standards for Accounting and Review Services (SSARSS) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants.

[The responsibilities of the accountant]

We will conduct our compilation in accordance with SSARSS.

A compilation engagement differs significantly from a review or an audit engagement. A compilation engagement does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review engagement. Additionally, a compilation engagement does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit engagement. Accordingly, we will not express an opinion or provide any assurance regarding the financial statements being compiled.

⁴ The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the compilation engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph A7.

⁵ Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

Our engagement cannot be relied upon to disclose errors, fraud, or noncompliance with laws and regulations. However, we will inform the appropriate level of management of any material errors and of any evidence or information that comes to our attention during the performance of our compilation procedures that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our compilation procedures regarding noncompliance with laws and regulations that may have occurred, unless they are not material. *[If, during the period covered by the engagement letter, the accountant's independence is or will be impaired, insert the following:*

We are not independent with respect to XYZ Company. We will disclose that we are not independent in our compilation report.]

[The responsibilities of management and identification of the applicable financial reporting framework]

Our compilation engagement will be conducted on the basis that *[management]*⁶ acknowledges and understands that it has responsibility

- a. for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; and
- c. to provide us with access to all financial records and related information that we have requested.

[Other relevant information]

Our fees for these services

[The accountant may include language such as the following regarding limitation of or other arrangements regarding the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

You agree to release, indemnify, defend, and hold us harmless from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us.]

[Reporting]

[Insert appropriate reference to the expected form and content of the accountant's compilation report. Example follows:]

We will issue a written report upon completion of our compilation of ABC Company's financial statements. Our report will be addressed to the board of directors of ABC Company. We cannot provide assurance that an unmodified accountant's compilation report will be issued. Circumstances may arise in which it is necessary of us to report known departures from accounting principles generally accepted in the United States of America, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. If, for any reason, we are

⁶ Use terminology as appropriate in the circumstances.

unable to complete the compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our compilation of the financial statements including our respective responsibilities.

Sincerely yours,

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of XYZ Company by:

[Signed]

[Name and title]

[Date]

A67.

Exhibit B—Illustrations of Accountant's Compilation Reports on Financial Statements (Ref: par. A33)

This exhibit is an interpretive publication, pursuant to paragraph .18 of AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*). Interpretive publications are recommendations on the application of Statements on Standards for Accounting and Review Services (SSARs) in specific circumstances. An interpretive publication is issued under the authority of the Accounting and Review Services Committee (ARSC) after all ARSC members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with SSARs.

Illustration 1—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When a Compilation Has Been Performed for Both Periods

Illustration 2—An Accountant's Compilation Report on Single Year Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Illustration 3—An Accountant's Compilation Report on Single Year Financial Statements Prepared in Accordance With the Cash Basis of Accounting

Illustration 4—An Accountant's Compilation Report on Single Year Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America and Management Has Elected to Omit Substantially All Disclosures Required by Accounting Principles Generally Accepted in the United States of America

Illustration 5—An Accountant's Compilation Report on Interim Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Illustration 6—An Accountant's Compilation Report on Single Year Financial Statements Prepared in Accordance With the Tax-Basis of Accounting and Management Has Elected to Omit Substantially All Disclosures Ordinarily Included in Financial Statements Prepared in Accordance With the Tax-Basis of Accounting

Illustration 7—An Accountant's Compilation Report on Single Year Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Accountant's Independence Has Been Impaired and the Accountant Determines to Not Disclose the Reason for the Independence Impairment

Illustration 8—An Accountant's Compilation Report on Single Year Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Accountant's Independence Has Been Impaired Due to the Accountant Having a Financial Interest in the Entity and the Accountant Determines to Disclose the Reason for the Independence Impairment

Illustration 1—An Accountant’s Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When a Compilation Has Been Performed for Both Periods

Circumstances include the following:

- Compilation of a complete set of comparative financial statements.
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Accountant’s Compilation Report

[Appropriate Addressee]

I (we) have compiled the accompanying balance sheets of XYZ Company as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders’ equity, and cash flows for the years then ended and the related notes to the financial statements. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management’s Responsibility for the Financial Statements

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant’s Responsibility

My (our) responsibility is to report on the financial statements based on our compilations. I (we) compiled the financial statements in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. The objective of a compilation engagement is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with accounting principles generally accepted in the United States of America, and to report in accordance with the requirements of SSARSs.

[Signature of accounting firm or accountant, as appropriate]

[Accountant’s city and state]

[Date of the accountant’s compilation report]

Illustration 2—An Accountant's Compilation Report on Single Year Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Compilation of a complete set of financial statements (single year).
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Accountant's Compilation Report

[Appropriate Addressee]

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended and the related notes to the financial statements. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management's Responsibility for the Financial Statements

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant's Responsibility

My (our) responsibility is to report on the financial statements based on our compilation. I (we) compiled the financial statements in accordance with Statements on Standards for Accounting and Review Services (SSARSS) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. The objective of a compilation is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with accounting principles generally accepted in the United States of America, and to report in accordance with the requirements of SSARSS.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Illustration 3—An Accountant’s Compilation Report on Single Year Financial Statements Prepared in Accordance With the Cash Basis of Accounting

Circumstances include the following:

- Compilation of a statement of cash receipts and disbursements (single year).
- The financial statements are prepared in accordance with the cash basis of accounting (that is, a special purpose framework).

Accountant’s Compilation Report

[Appropriate Addressee]

I (we) have compiled the accompanying statement of cash receipts and disbursements of XYZ Company for the year ended December 31, 20XX, and the related notes to the financial statement. I (we) have not audited or reviewed the accompanying financial statement and, accordingly, do not express an opinion or provide any assurance about whether the financial statement is in accordance with the cash basis of accounting.

Management’s Responsibility for the Financial Statement

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of financial statement in the circumstances. Management is also responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statement.

Accountant’s Responsibility

My (our) responsibility is to report on the financial statements based on our compilation. I (we) compiled the financial statements in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. The objective of a compilation is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with the cash basis of accounting, and to report in accordance with the requirements of SSARSs.

Basis of Accounting

I (we) draw attention to Note X of the financial statement, which describes the basis of accounting. The financial statements are prepared in accordance with the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

[Signature of accounting firm or accountant, as appropriate]

[Accountant’s city and state]

[Date of the accountant’s report]

Illustration 4—An Accountant’s Compilation Report on Single Year Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America and Management Has Elected to Omit Substantially All Disclosures Required by Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Compilation of a complete set of financial statements (single year).
- Management has elected to omit substantially all disclosures required by accounting principles generally accepted in the United States of America.
- Other than the omission of substantially all disclosures, the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Accountant’s Compilation Report

[Appropriate Addressee]

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, changes in stockholders’ equity, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management’s Responsibility for the Financial Statements

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant’s Responsibility

My (our) responsibility is to report on the financial statements based on our compilation. I (we) compiled the financial statements in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. The objective of a compilation is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with accounting principles generally accepted in the United States of America, and to report in accordance with the requirements of SSARSs.

Omission of Substantially All Disclosures Required by Accounting Principles Generally Accepted in the United States of America

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user’s conclusions about the

company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Illustration 5—An Accountant's Compilation Report on Interim Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Compilation of a complete set of financial statements for the period ended September 30, 20XX, and for the three and nine months then ended.
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.
- Management has elected to omit substantially all disclosures required by accounting principles generally accepted in the United States of America.

Accountant's Compilation Report

[Appropriate Addressee]

I (we) have compiled the accompanying balance sheet of XYZ Company as of September 30, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the three and nine months then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management's Responsibility for the Financial Statements

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant's Responsibility

My (our) responsibility is to report on the financial statements based on our compilation. I (we) compiled the financial statements in accordance with Statements on Standards for Accounting and Review Services (SSARs) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. The objective of a compilation is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with accounting principles generally accepted in the United States of America, and to report in accordance with the requirements of SSARs.

Omission of Substantially All Disclosures Required by Accounting Principles Generally Accepted in the United States of America

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the

company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Illustration 6—An Accountant’s Compilation Report on Single Year Financial Statements Prepared in Accordance With the Tax-Basis of Accounting and Management Has Elected to Omit Substantially All Disclosures Ordinarily Included in Financial Statements Prepared in Accordance With the Tax-Basis of Accounting

Circumstances include the following:

- Compilation of a complete set of financial statements (single year).
- Management has elected to omit substantially all disclosures ordinarily included in financial statements prepared in accordance with the tax-basis of accounting.
- Other than the omission of substantially all disclosures, the financial statements are prepared in accordance with the tax-basis of accounting.

Accountant’s Compilation Report

[Appropriate Addressee]

I (we) have compiled the accompanying statement of assets, liabilities, and equity—tax-basis of XYZ Company as of December 31, 20XX—and the related statement of revenue and expenses—tax-basis for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the tax-basis of accounting.

Management’s Responsibility for the Financial Statements

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the tax-basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant’s Responsibility

My (our) responsibility is to report on the financial statements based on our compilation. I (we) compiled the financial statements in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. The objective of a compilation is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with the tax-basis of accounting, and to report in accordance with the requirements of SSARSs.

Basis of Accounting

The financial statements are prepared in accordance with the tax-basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Omission of Substantially All Disclosures Ordinarily Included in Financial Statements Prepared in Accordance With the Tax-Basis of Accounting

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared in accordance with the tax-basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Illustration 7—An Accountant’s Compilation Report on Single Year Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Accountant’s Independence Has Been Impaired and the Accountant Determines to Not Disclose the Reason for the Independence Impairment

Circumstances include the following:

- Compilation of a complete set of financial statements.
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.
- The accountant’s independence is impaired and the accountant determines to not disclose the reason for the independence impairment.

Accountant’s Compilation Report

[Appropriate Addressee]

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, changes in stockholders’ equity, and cash flows for the year then ended, and the related notes to the financial statements. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management’s Responsibility for the Financial Statements

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant’s Responsibility

My (our) responsibility is to report on the financial statements based on our compilation. I (we) compiled the financial statements in accordance with Statements on Standards for Accounting and Review Services (SSARs) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. The objective of a compilation is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with accounting principles generally accepted in the United States of America, and to report in accordance with the requirements of SSARs.

Other Matter

I am (we are) not independent with respect to XYZ Company.

[Signature of accounting firm or accountant, as appropriate]

[Accountant’s city and state]

[Date of the accountant’s report]

Illustration 8—An Accountant’s Compilation Report on Single Year Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Accountant’s Independence Has Been Impaired Due to the Accountant Having a Financial Interest in the Entity and the Accountant Determines to Disclose the Reason for the Independence Impairment

Circumstances include the following:

- Compilation of a complete set of financial statements.
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.
- The accountant’s independence is impaired due to the accountant having a financial interest in the entity, and the accountant determines to disclose the reason for the independence impairment.

Accountant’s Compilation Report

[Appropriate Addressee]

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, changes in stockholders’ equity, and cash flows for the year then ended, and the related notes to the financial statements. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management’s Responsibility for the Financial Statements

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant’s Responsibility

My (our) responsibility is to report on the financial statements based on our compilation. I (we) compiled the financial statements in accordance with Statements on Standards for Accounting and Review Services (SSARSS) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. The objective of a compilation is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no material modifications necessary in order for the statements to be in conformity with accounting principles generally accepted in the United States of America, and to report in accordance with the requirements of SSARSS.

Other Matter

I am (we are) not independent with respect to XYZ Company as during the year ended December 31, 20XX as I [*a member of the engagement team*] (engagement team members [*appropriate team members*]) had a direct financial interest in XYZ Company.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of accountant's report]

**PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND
REVIEW SERVICES**

***COMPILATION OF FINANCIAL STATEMENTS—SPECIAL
CONSIDERATIONS***

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Proposed Statement on Standards for Accounting and Review Services *Compilation of Financial Statements—Special Considerations*

Introduction

Scope of This Proposed Statement on Standards for Accounting and Review Services

1. The proposed Statement on Standards for Accounting and Review Services (SSARS), *Compilation of Financial Statements* applies to a compilation of financial statements. This proposed SSARS addresses special considerations in the application of the proposed SSARS *Compilation of Financial Statements* to a compilation when certain special situations are present.

Effective Date

2. This proposed SSARS is effective for compilations of financial statements for periods ending on or after December 15, 2014. Early implementation is required if the accountant early implements the proposed revised Interpretation No. 101-3, "Performance of Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec 101 par. .05). Otherwise, early implementation is not permitted.

Objectives

3. The objective of the accountant is to address the following special situations when such situations are present in a compilation of financial statements:
 - The need to draw users' attention, when required or when in the accountant's judgment it is necessary to do so, by way of an emphasis-of-matter paragraph or an other-matter paragraph in the accountant's compilation report (paragraphs 5–8)
 - To express known departures from the applicable financial reporting framework in the accountant's compilation report (paragraphs 9–13)
 - To include an alert that restricts the use of the accountant's compilation report when the potential exists for the accountant's compilation report to be misunderstood if taken out of the context in which it is intended to be used (paragraphs 14–17)
 - The accountant's consideration of an entity's ability to continue as a going concern (paragraphs 18–22)
 - The accountant's consideration of subsequent events and subsequent discovery of facts (paragraphs 23–31)
 - Information is presented for supplementary analysis purposes that accompanies compiled financial statements (paragraphs 32–36)
 - Request to change the engagement from audit or review to compilation (paragraphs 37–42)

Definitions

4. For purposes of SSARs, the following terms have the meanings attributed as follows:

Basic financial statements. Financial statements excluding required supplementary information.

Designated accounting standards setter. A body designated by the Council of the AICPA to promulgate accounting principles generally accepted in the United States pursuant to Rule 202, *Compliance With Standards* (AICPA, *Professional Standards*, ET sec. 202 par. .01), and Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, ET sec. 203 par. .01), of the AICPA Code of Professional Conduct.

Emphasis-of-matter paragraph. A paragraph included in the accountant's compilation report that is required by SSARs, or is included at the accountant's discretion, and that refers to a matter appropriately presented or disclosed in the financial statements that, in the accountant's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Also see **other-matter paragraph**.

Other-matter paragraph. A paragraph included in the accountant's compilation report that is required by SSARs, or is included at the accountant's discretion, and that refers to a matter other than those presented or disclosed in the financial statements that, in the accountant's professional judgment, is relevant to users' understanding of the compilation, the accountant's responsibilities, or the accountant's compilation report. Also see **emphasis-of-matter paragraph**.

Report release date. The date the accountant grants the entity permission to use the accountant's compilation report in connection with the financial statements.

Required supplementary information. Information that a designated accounting standard setter requires to accompany an entity's basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standard setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of that information have been established.

Specified parties. The intended users of the accountant's compilation report.

Subsequent events. Events occurring between the date of the financial statements and the date of the accountant's compilation report.

Subsequently discovered facts. Facts that become known to the accountant after the date of the accountant's compilation report that, had they been known to the accountant at that date, may have caused the accountant to revise the accountant's compilation report.

Supplementary information. Financial information presented outside the financial statements, excluding required supplementary information, that is not considered

necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework.

Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Accountant's Compilation Report

Emphasis-of-Matter Paragraphs in the Accountant's Compilation Report

5. If the accountant considers it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the accountant's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the accountant should include an emphasis-of-matter paragraph in the accountant's compilation report, provided that the accountant does not believe that the financial statements may be materially misstated. Such a paragraph should refer only to information presented or disclosed in the financial statements. (Ref: par. A1-A4)
6. When the accountant includes an emphasis-of-matter paragraph in the accountant's compilation report, the accountant should
 - a. include it immediately after the accountant's responsibility paragraph in the accountant's compilation report;
 - b. use the heading "Emphasis of a Matter" or other appropriate heading; and (Ref: par. A5)
 - c. include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements.

Other-Matter Paragraphs in the Accountant's Compilation Report

7. If the accountant considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the accountant's professional judgment, is relevant to the users' understanding of the compilation, the accountant's responsibilities, or the accountant's compilation report, the accountant should do so in a paragraph in the accountant's compilation report with the heading "Other Matter" or other appropriate heading. The accountant should include this paragraph immediately after the accountant's responsibility paragraph and any emphasis-of-matter paragraph. (Ref: par. A6-A8)

Communication With Management

8. If the accountant expects to include an emphasis-of-matter or other-matter paragraph in the accountant's compilation report, the accountant should communicate with management regarding this expectation and the proposed wording of this paragraph. (Ref: par. A9-A10)

Known Departures From the Applicable Financial Reporting Framework

9. When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial

statements if the financial statements are not revised, the accountant should consider whether modification of the standard report is adequate to disclose the departure.

10. If the accountant concludes that modification of the standard report is appropriate, the departure should be disclosed in an emphasis-of-matter paragraph of the report under the heading "Known Departures From the [*identity the applicable financial reporting framework*]," including disclosure of the effects of the departure on the financial statements if such effects have been determined by management or are known to the accountant as the result of the accountant's procedures. (Ref: par. A11–A12 and A14)
11. If the effects of the departure have not been determined by management or are not known to the accountant as a result of the accountant's procedures, the accountant is not required to determine the effects of a departure; however, in such circumstances the accountant should state in the report that such determination has not been made.
12. If the accountant believes that modification of the standard report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant should withdraw from the compilation engagement and provide no further services with respect to those financial statements. (Ref: par. A13)
13. The accountant should not modify the standard report to include a statement that the financial statements are not in conformity with the applicable financial reporting framework because such a statement would be tantamount to expressing an adverse opinion on the financial statements as a whole. Such an opinion can be expressed only in the context of an audit engagement.

Alert That Restricts the Use of the Accountant's Compilation Report

14. An accountant's compilation report should include an alert, in a separate paragraph, that restricts its use when the subject matter of the accountant's compilation report is based on (Ref: par. A15–A17)
 - a. measurement or disclosure criteria that are determined by the accountant to be suitable only for a limited number of users who can be presumed to have an adequate understanding of the criteria or
 - b. measurement or disclosure criteria that are available only to the specified parties.
15. The alert that restricts the use of the accountant's compilation report required by paragraph 14 should
 - a. state that the accountant's compilation report is intended solely for the information and use of the specified parties.
 - b. identify the specified parties for whom use is intended.
 - c. state that the accountant's compilation report is not intended to be and should not be used by anyone other than the specified parties. (Ref: par. A18)

Adding Other Specified Parties (Ref: par. A19)

16. When, in accordance with paragraph 14, the accountant includes an alert that restricts the use of the accountant's compilation report to certain specified parties, and the accountant

is requested to add other parties as specified parties, the accountant should determine whether to agree to add the other parties as specified parties.

17. If the other parties are added after the release of the accountant's compilation report the accountant should take one of the following actions:
 - a. Amend the accountant's compilation report to add the other parties. In such circumstances, the accountant should not change the original date of the accountant's compilation report.
 - b. Provide a written acknowledgment to management and the other parties that such parties have been added as specified parties. The accountant should state in the acknowledgement that no procedures were performed subsequent to the original date of the accountant's compilation report.

The Accountant's Consideration of an Entity's Ability to Continue as a Going Concern

Consideration of Conditions or Events That Indicate That There Could Be an Uncertainty About the Entity's Ability to Continue as a Going Concern

18. The accountant should consider whether, during the performance of compilation procedures, evidence or information came to the accountant's attention indicating that there could be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being compiled (hereinafter referred to as a *reasonable period of time*). (Ref: par. A20)
19. If, after considering the evidence or information from paragraph 18, the accountant believes that there is an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, the accountant should request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure. (Ref: par. A20)

Consideration of Financial Statement Effects (Ref: par. A21-A22)

20. After management communicates to the accountant the results of its consideration of the possible effects on the financial statements, the accountant should consider the reasonableness of management's conclusions, including the adequacy of the related disclosure, if applicable.

Consideration of the Effects on the Accountant's Compilation Report

21. If the accountant determines that the entity's disclosures with respect to the entity's ability to continue as a going concern for a reasonable period of time are inadequate, a departure from the applicable financial reporting framework exists and the accountant should follow the guidance in paragraphs 9-13.
22. The accountant should consider the inclusion of an emphasis-of-matter paragraph in the accountant's compilation report pursuant to paragraphs 5-6 or an other-matter paragraph in the accountant's report pursuant to paragraph 7. (Ref: par. A22-A24)

Subsequent Events and Subsequently Discovered Facts

Subsequent Events (Ref: par. A25)

23. When evidence or information that subsequent events that require adjustment of, or disclosure in, the financial statements comes to the accountant's attention, the accountant should request that management consider whether each such event is appropriately reflected in the financial statements in accordance with the applicable financial reporting framework.
24. If the accountant determines that a subsequent event is not adequately accounted for in the financial statements or disclosed in the notes, the accountant should follow the guidance in paragraphs 9–13.

Subsequently Discovered Facts That Become Known to the Accountant Before the Report Release Date

25. The accountant is not required to perform any compilation procedures regarding the financial statements after the date of the accountant's compilation report. However, if a subsequently discovered fact becomes known to the accountant before the report release date, the accountant should
 - a. discuss the matter with management and, when appropriate, those charged with governance and
 - b. determine whether the financial statements need revision and, if so, inquire how management intends to address the matter in the financial statements.
26. If management revises the financial statements, the accountant should either
 - a. date the accountant's compilation report as of a later date or
 - b. include an additional date in the accountant's compilation report on the revised financial statements that is limited to the revision (that is, dual date the accountant's compilation report for that revision), thereby indicating that the accountant's compilation procedures subsequent to the original date of the accountant's compilation report are limited solely to the revision of the financial statements described in the relevant note to the financial statements, if applicable.
27. If management does not revise the financial statements in circumstances when the accountant believes they need to be revised, the accountant should modify the accountant's compilation report in accordance with paragraphs 9–13, as appropriate.

Subsequently Discovered Facts That Become Known to the Accountant After the Report Release Date

28. If a subsequently discovered fact becomes known to the accountant after the report release date, the accountant should (Ref: par. A26–A27)
 - a. discuss the matter with management and, when appropriate, those charged with governance and
 - b. determine whether the financial statements need revision and, if so, inquire how management intends to address the matter in the financial statements.
29. If management revises the financial statements, the accountant should

- a. apply the requirements of paragraph 26.
 - b. if the compiled financial statements (before revision) have been made available to third parties, assess whether the steps taken by management are timely and appropriate to ensure that anyone in receipt of those financial statements is informed of the situation, including that the compiled financial statements are not to be used. If management does not take the necessary steps, the accountant should apply the requirements of paragraph 31. (Ref: par. A28)
 - c. if the accountant's compilation report on the revised financial statements differs from accountant's compilation report on the original financial statements, disclose the following matters in an emphasis-of-matter paragraph, in accordance with paragraphs 5–6:
 - i. The date of the accountant's previous report
 - ii. A description of the revisions
 - iii. The substantive reasons for the revisions
30. If management does not revise the financial statements in circumstances when the accountant believes they need to be revised, then
- a. if the compiled financial statements have not been made available to third parties, the accountant should notify management and those charged with governance—unless all of those charged with governance are involved in managing the entity—not to make the compiled financial statements available to third parties before the necessary revisions have been made and a new accountant's compilation report on the revised financial statements has been provided. If the compiled financial statements are, nevertheless, subsequently made available to third parties without the necessary revisions, the accountant should apply the requirements of paragraph 30*b*.
 - b. if the compiled financial statements have been made available to third parties, the accountant should assess whether the steps taken by management are timely and appropriate to ensure that anyone in receipt of the compiled financial statements is informed of the situation, including that the compiled financial statements are not to be used. If management does not take the necessary steps, the accountant should apply the requirements of paragraph 31. (Ref: par. A28)
31. If management does not take the necessary steps to ensure that anyone in receipt of the financial statements is informed of the situation, as provided by paragraphs 29*b* or 30*b*, the accountant should notify management and those charged with governance—unless all of those charged with governance are involved in managing the entity—that the accountant will seek to prevent future use of the accountant's compilation report. If, despite such notification, management or those charged with governance do not take the necessary steps, the accountant should take appropriate action to seek to prevent use of the accountant's compilation report. (Ref: par. A29–A32)

Information Presented For Supplementary Analysis Purposes That Accompanies Compiled Financial Statements

32. When information presented for supplementary analysis purposes accompanies compiled financial statements, the accountant should include an other-matter paragraph in the accountant's compilation report on the financial statements to clearly indicate the degree of responsibility, if any, the accountant is taking with respect to such information. (Ref: par. A33–A34)
33. With respect to the requirement in paragraph 32, with respect to required supplementary information, the other-matter paragraph should include language to explain the following circumstances, as applicable: (ref: par. A35)
- a. The required supplementary information is included, and the accountant compiled the required supplementary information.
 - b. The required supplementary information is included, and the accountant did not compile, review, or audit the required supplementary information.
 - c. The required supplementary information is omitted.
 - d. Some required supplementary information is missing and some is presented in accordance with the prescribed guidelines (Ref: par. A36)
 - e. The accountant has identified departures from the prescribed guidelines.
 - f. The accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.
34. If the entity has presented all or some of the required supplementary information and the accountant did not compile the required supplementary information, the other-matter paragraph referred to in paragraph 33 should include the following elements: (Ref: par. A37–A38)
- a. A statement that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require that the [*identify the required supplementary information*] be presented to supplement the basic financial statements
 - b. A statement that such information, although not a part of the basic financial statements, is required by [*identify designated accounting standards setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
 - c. A statement that the accountant did not compile, review, or audit the required supplementary information and, accordingly, does not express an opinion or provide any assurance on the information
 - d. If some of the required supplementary information is omitted, (Ref: par. A38–A39)
 - i. a statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements

- ii. a statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
 - e. If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, a statement that material departures from prescribed guidelines exist [*describe the material departures from the applicable financial reporting framework*]
 - f. If the accountant has unresolved doubts about whether the required supplementary information is measured or presented in accordance with prescribed guidelines, a statement that the accountant has doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with guidelines established by [*identify designated accounting standards setter*]
35. If all of the required supplementary information is omitted, the other paragraph should include the following elements: (Ref: par. A38–A39)
- a. A statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements
 - b. A statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
36. When the accountant has compiled both the financial statements and the information presented for supplementary analysis purposes, the accountant should report on such information in either (a) an other-matter paragraph in the accountant's compilation report on the financial statements or (b) a separate report on the information presented for supplementary analysis purposes. The other-matter paragraph in the accountant's compilation report on the financial statements or the separate report on the information presented for supplementary analysis purposes should state that (Ref: par. A40)
- a. the information is presented for purposes of additional analysis and is not a required part of the financial statements,
 - b. the information has been compiled from information that is the representation of management, and
 - c. the accountant has not audited or reviewed the information and, accordingly, does not express an opinion or provide any assurance on such information.

Change in Engagement From Audit or Review to Compilation

37. If the accountant, who was engaged to perform an audit engagement in accordance with generally accepted auditing standards or a review engagement in accordance with

SSARSs, has been requested to change the engagement to a compilation engagement, the accountant should consider the following before deciding whether to agree to the change: (Ref: par. A41–A43)

- a. The reason given for the client's request, particularly the implications of a restriction on the scope of the audit or review engagement, whether imposed by the client or by circumstances
 - b. The additional audit or review effort required to complete the audit or review engagement
 - c. The estimated additional cost to complete the audit or review engagement
38. In all circumstances, if the audit or review procedures are substantially complete or the cost to complete such procedures is relatively insignificant, the accountant should consider the propriety of accepting a change in the engagement.
39. If the accountant concludes, based upon the accountant's professional judgment, that reasonable justification exists to change the engagement, and if the accountant complies with the standards applicable to a compilation engagement, the accountant should issue an appropriate compilation report.
40. The report should not include reference to
 - a. the original engagement,
 - b. any audit or review procedures that may have been performed, or
 - c. scope limitations that resulted in the changed engagement.
41. When the accountant has been engaged to audit an entity's financial statements and has been prohibited by the client from corresponding with the entity's legal counsel, the accountant, except in rare circumstances, is precluded from issuing a compilation report on the financial statements.
42. If, in an audit or review engagement, a client does not provide the accountant with a signed representation letter, the accountant is precluded from issuing a compilation report on the financial statements.

Application and Other Explanatory Material

Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Accountant's Compilation Report (Ref: par. 5-8)

- A1. The accountant is required to include an emphasis-of-matter or other-matter paragraph in the accountant's compilation report relating to the following matters:
 - In accordance with paragraph 37 of the proposed SSARS *Compilation of Financial Statements*, with respect to financial statements prepared in accordance with a special purpose framework
 - In accordance with paragraph 44 of the proposed SSARS *Compilation of Financial Statements*, with respect to reporting on prior period financial statements and the

accountant's compilation report includes a changed reference to a departure from the applicable financial reporting framework

- In accordance with paragraph 10, with respect to reporting a known departure from the applicable financial reporting framework that is material to the financial statements
- In accordance with paragraph 29c, with respect to reporting when management revises financial statements for a subsequently discovered fact that became known to the accountant after the report release date and the accountant's compilation report on the revised financial statements differs from the accountant's compilation report on the original financial statements

Emphasis-of-Matter Paragraphs in the Accountant's Compilation Report

A2. In addition to the required emphasis-of-matter paragraphs listed in paragraph A1, the following are examples of circumstances when the accountant may consider it necessary to include an emphasis-of-matter paragraph:

- An uncertainty regarding the entity's ability to continue as a going concern for a reasonable period of time in accordance with paragraph 22
- An uncertainty relating to the future outcome of unusually important litigation or regulatory action
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position
- Significant transactions with related parties
- Unusually important subsequent events

A3. Paragraph 5 requires that an emphasis-of-matter paragraph refer only to matters appropriately presented or disclosed in the financial statements. To include information in an emphasis-of-matter paragraph about a matter beyond what is presented or disclosed in the financial statements may raise questions about the appropriateness of such presentation or disclosure.

A4. An emphasis-of-matter paragraph in the accountant's compilation report is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make.

A5. If the heading "Emphasis-of-Matter" is not used, another heading may be considered appropriate if it adequately describes the nature of the matter being disclosed or communicated.

Other-Matter Paragraphs in the Accountant's Compilation Report

A6. Law, regulation, or generally accepted practice may require or permit the accountant to elaborate on matters that provide further explanation of the accountant's responsibilities in the compilation of financial statements or the accountant's compilation report thereon. When relevant, one or more subheadings may be used that describe the content of the other-matter paragraph.

- A7.** An entity may prepare one set of financial statements in accordance with a general purpose framework (for example, accounting principles generally accepted in the United States of America) and another set of financial statements in accordance with another general purpose framework (for example, International Financial Reporting Standards promulgated by the International Accounting Standards Board) and may engage the accountant to compile both sets of financial statements. If the accountant has determined that the frameworks are acceptable in the respective circumstances, the accountant may include an other-matter paragraph in the accountant's compilation report referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the accountant has issued a compilation report on those financial statements.
- A8.** The content of an other-matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An other-matter paragraph does not include information that the accountant is prohibited from providing by law, regulation, or other professional standards (for example, ethical standards relating to the confidentiality of information). An other-matter paragraph does not include information that is required to be provided by management.

Communication With Management (Ref: par. 8)

- A9.** The accountant's communication with management, as described in paragraph 8, enables management to be made aware of the nature of any specific matters that the accountant intends to highlight in the accountant's compilation report and provides it with an opportunity to obtain further clarification from the accountant, when necessary. When the inclusion of an other-matter paragraph on a particular matter in the accountant's compilation report recurs on each successive engagement, the accountant may determine that it is unnecessary to repeat the communication on each engagement.
- A10.** In addition to management, the accountant may also consider it appropriate to communicate with those charged with governance regarding the expectation of including an other-matter paragraph in the accountant's compilation report and the proposed wording of this paragraph.

Known Departures From the Applicable Financial Reporting Framework (Ref: par. 10–12)

- A11.** Examples of headings that an accountant may use to disclose departures from an applicable financial reporting framework in the accountant's compilation report include the following:
- Known Departures From Accounting Principles Generally Accepted in the United States of America
 - Known Departures From International Financial Reporting Standards as Promulgated By the International Accounting Standards Board
 - Known Departures From the Cash Basis of Accounting
 - Known Departures From the Income Tax Basis of Accounting
- A12.** The accountant may wish to include an other-matter paragraph in the accountant's compilation report to draw users attention to the limitations of the financial statements

depending on the accountant's assessment of the possible dollar magnitude of the effects of the departures, the significance of the affected items to the entity, the pervasiveness and overall impact of the misstatements, and whether disclosure has been made of the effects of the departures. Inclusion of such a paragraph in the accountant's compilation report is not a substitute for disclosure of the specific departures or the effects of such departures when they have been determined by management or are known as a result of the accountant's procedures.

- A13. The accountant may wish to consult with legal counsel in those circumstances when the accountant withdraws from the compilation engagement and provides no further services with respect to financial statements for which modification of the standard report is not adequate to indicate the deficiencies in the financial statements as a whole.
- A14. The exhibit to this SSARS contains an illustrative example of an accountant's compilation report that discloses a departure from the applicable financial reporting framework.

Alert That Restricts the Use of the Accountant's Compilation Report (Ref: par. 14)

- A15. The need for an alert that restricts the use of the accountant's compilation report arises from the potential for the accountant's compilation report to be misunderstood if taken out of the context in which the accountant's compilation report is intended to be used.
- A16. Accountant's compilation reports on financial statements prepared in accordance with a general purpose framework ordinarily do not include an alert that restricts their use. However, nothing in SSARSs precludes an accountant from including an alert in any accountant's compilation report. For example, financial statements prepared specifically for use in an acquisition, may be prepared in accordance with a general purpose framework because the parties involved in the transaction have agreed that such general purpose financial statements are appropriate for their purposes. Nevertheless, when the terms of the engagement to compile those financial statements require the accountant to supply the accountant's compilation report only to specified parties, the accountant may consider it necessary in the circumstances to include an other-matter paragraph in the accountant's compilation report that restricts the use of the accountant's compilation report.

***Distribution of the Accountant's Compilation Report* (Ref: par. 14)**

- A17. An accountant is not responsible for controlling, and cannot control, distribution of the accountant's compilation report after its release. The alert that restricts the use of the accountant's compilation report is designed to avoid misunderstandings related to the use of the accountant's compilation report, particularly if the accountant's compilation report is taken out of the context in which the accountant's compilation report is intended to be used. An accountant may consider informing the entity or other specified parties that the accountant's compilation report is not intended for distribution to parties other than those specified in the accountant's compilation report. The accountant may, in connection with establishing the terms of the engagement, reach an understanding with the entity that the intended use of the accountant's compilation report will be restricted and may obtain the entity's agreement that the entity and specified parties will not distribute such accountant's compilation report to parties other than those identified therein.

Illustrative Alert Language (Ref: par. 15)

A18. The alert that restricts the use of the accountant's compilation report may list the specified parties or refer to the specified parties listed elsewhere in the accountant's compilation report. The following illustrates language that includes the elements required by paragraph 15:

This report is intended solely for the information and use of [*list or refer to the specified parties*] and is not intended to be and should not be used by anyone other than these specified parties.

Adding Other Specified Parties (Ref: par. 16–17)

A19. When the accountant is requested to add other parties as specified parties, the accountant may agree to add other parties as specified parties based on the accountant's consideration of factors such as the identity of the other parties and the intended use of the accountant's compilation report.

The Accountant's Consideration of an Entity's Ability to Continue as a Going Concern

Consideration of Conditions or Events That Indicate That There Could Be an Uncertainty About the Entity's Ability to Continue as a Going Concern (Ref: par. 18)

A20. In performing compilation procedures, the accountant may identify information about certain conditions or events that, when considered in the aggregate, indicate there could be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time. The significance of such conditions and events will depend on the circumstances, and some may have significance only when viewed in conjunction with others. The following are examples of such conditions and events:

- *Negative trends.* For example, recurring operating losses, working capital deficiencies, negative cash flows from operating activities, or adverse key financial ratios.
- *Other indications of possible financial difficulties.* For example, default on loan or similar agreements, arrearages in dividends, denial of usual trade credit from suppliers, restructuring of debt, noncompliance with statutory capital requirements, or need to seek new sources or methods of financing or to dispose of substantial assets.
- *Internal matters.* For example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, or need to significantly revise operations.
- *External matters that have occurred.* For example, legal proceedings, legislation, or similar matters that might jeopardize an entity's ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier; or uninsured or underinsured catastrophe such as a drought, earthquake, or flood.

Consideration of Financial Statement Effects (Ref: par. 20)

A21. In considering the adequacy of disclosure, if applicable, some of the information that might be disclosed includes the following:

- Principal conditions and events giving rise to the assessment of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time
- The possible effects of such conditions and events
- Management's evaluation of the significance of those conditions and events and any mitigating factors
- Possible discontinuance of operations
- Management's plans (including relevant prospective financial information)
- Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities

A22. Disclosure of items, such as an uncertainty, is not required in financial statements in which substantially all the disclosures required by the applicable financial reporting framework are omitted. Users of such compiled financial statements are adequately warned of the limitations of the financial statements by the report language required by paragraph 48 of the proposed SSARS *Compilation of Financial Statements*.

Consideration of the Effects on the Accountant's Compilation Report (Ref: par. 22)

A23. The following is an illustration of an emphasis-of-matter paragraph when the accountant concludes that there is an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time:

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises an uncertainty about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note X. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The following is an illustration of an other-matter paragraph that may be included in the accountant's compilation report on financial statements that omit substantially all disclosures when the accountant concludes that there is an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time:

Other Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered recurring losses from operations and has a net capital deficiency that raises an uncertainty about its ability to continue as a going concern. Management's plans in regard to these matters are [*describe management's plans*]. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

A24. Examples of inappropriate wording in the emphasis-of-matter or other-matter paragraph include the following:

- If the Company continues to suffer recurring losses from operations and continues to have a net capital deficiency, there may be an uncertainty about its ability to continue as a going concern.
- The Company has been unable to renegotiate its expiring credit agreements. Unless the Company is able to obtain financial support, there is an uncertainty about its ability to continue as a going concern.

Subsequent Events and Subsequent Discovery of Facts

Subsequent Events (Ref: par. 23–24)

- A25.** Evidence or information that subsequent events that require adjustment of, or disclosure in, the financial statement may come to the accountant's attention in the following ways:
- a. During the performance of compilation procedures
 - b. Subsequent to the date of the accountant's compilation report but prior to the release of the report

Subsequently Discovered Facts That Become Known to the Accountant After The Report Release Date (Ref: par. 28)

- A26.** New information may come to the accountant's attention that, had such information been known to the accountant at the date of the accountant's compilation report, may have caused the accountant to revise the accountant's compilation report. When such information becomes known to the accountant after the report release date, the requirements in paragraphs 28–31 apply, even if the accountant has withdrawn or been discharged.
- A27.** Because of the variety of conditions that might be encountered, the specific procedures or actions to be taken in a particular case may vary somewhat in light of the circumstances. For example, in determining whether the financial statements need revision, as required by paragraph 28*b*, the accountant may consider, in addition to the requirements of the applicable financial reporting framework, whether the accountant believes there are persons currently using or likely to use the financial statements who would attach importance to the subsequently discovered facts. Consideration may be given, among other things, to the issuance of compiled, reviewed, or audited financial statements for a subsequent period, the time elapsed since the financial statements were issued and the date of the accountant's compilation report released, and any legal implications.

Revision of Financial Statements by Management (Ref: par. 29*b* and 30*b*)

- A28.** The steps taken by management to ensure that anyone in receipt of the compiled financial statements is informed of the situation, including that the compiled financial statements are not to be used, depend on the circumstances. Management's steps may include the following:
- Notification to anyone who is known to be using or who is likely to use the financial statements and the accountant's compilation report that they are not to be used and that revised financial statements, together with a new accountant's compilation report,

will be issued. This may be necessary when the issuance of revised financial statements and a new accountant's compilation report is not imminent.

- Issuing, as soon as practical, revised financial statements with appropriate disclosure of the matter.
- Issuing the subsequent period's financial statements with appropriate disclosure of the matter. This may be appropriate when issuance of the subsequent period's compiled, reviewed, or audited financial statements is imminent.

Accountant Action to Seek to Prevent Use of the Accountant's Compilation Report (Ref: par. 31)

- A29.** If management made the compiled financial statements available to third parties despite the accountant's notification not to do so, or if the accountant believes that management or those charged with governance have failed to take the necessary steps to prevent use of the accountant's compilation report on the previously issued compiled financial statements despite the accountant's prior notification that the accountant will take action to seek to prevent such use, the accountant's course of action depends upon the accountant's legal rights and obligations. Consequently, the accountant may consider it appropriate to seek legal advice.
- A30.** The actions that the accountant may take to seek to prevent use of the accountant's compilation report may depend upon the degree of certainty of the accountant's knowledge that persons or entities exist who are currently using or who will use the compiled financial statements, and who would attach importance to the information, and the accountant's ability as a practical matter to communicate with them. Unless the accountant's legal counsel recommends a different course of action, the accountant may take the following steps to the extent applicable:
- Notify management and those charged with governance that the accountant's compilation report is not to be used.
 - Notify regulatory agencies having jurisdiction over the entity that the accountant's compilation report is not to be used, including a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure.
 - Notify anyone known to the accountant to be using the financial statements that the accountant's compilation report is not to be used. In some instances, it will not be practical for the accountant to give appropriate individual notification to stockholders or investors at large whose identities are unknown to the accountant; notification to a regulatory agency having jurisdiction over the entity will usually be the only practical means for the accountant to provide appropriate disclosure, together with a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure.
- A31.** Depending on the circumstances, if the accountant is able to determine that the financial statements need revision, the accountant's notification to anyone in receipt of the compiled financial statements may, if permitted by law, regulation, and relevant ethical requirements,

- include a description of the nature of the matter and of its effect on the financial statements, avoiding comments concerning the conduct or motives of any person.
- describe the effect that the matter would have had on the accountant's compilation report if it had been known to the accountant at the date of the report and had not been reflected in the financial statements.

A32. If the accountant was not able to determine whether the financial statements need revision, the notification to anyone in receipt of the compiled financial statements may indicate that information became known to the accountant and that, if the information is true, the accountant believes that the accountant's compilation report is not to be used. The specific matter may not be permitted by law, regulation, and ethical requirement to be detailed in the notification.

Information Presented for Supplementary Analysis Purposes That Accompanies Compiled Financial Statements (Ref: par. 32–36)

A33. Although not required to compile information presented for supplementary analysis purposes that accompany compiled financial statements, nothing precludes the accountant from compiling such information if engaged to do so.

A34. The following is an example of how an accountant may word an other-matter paragraph addressing information presented for supplementary analysis purposes:

Other Matter

The [*identify the information presented for supplementary analysis purposes*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information was not compiled, reviewed, or audited by me (us) and, accordingly, I (we) do not express an opinion or provide any assurance on it.

A35. Examples of required supplementary information that may accompany compiled financial statements include the following:

- With respect to common interest realty associations, estimates of current or future costs of major repairs and replacements of common property that will be required in the future as required by Financial Accounting Standards Board *Accounting Standards Codification* 972-235-50-3
- Management's discussion and analysis and budgetary comparison statements as required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*

A36. Prescribed guidelines are the authoritative guidelines established by the designated accounting standard setter for the methods of measurement and presentation of the required supplementary information.

- A37. Because the required supplementary information accompanies the basic financial statements, the accountant's compilation report on the financial statements includes a discussion of the responsibility taken by the accountant on that information. However, if the required supplementary information is omitted by the entity, the accountant does not have a responsibility to present that information.
- A38. The other-matter paragraph referencing the required supplementary information in the accountant's compilation report on the financial statements may read as follows:

The Required Supplementary Information Is Included and the Accountant Compiled the Required Supplementary Information

[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)] require that the [identify the required supplementary information] on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by [identify the designated accounting standards setter] who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. I (we) compiled the [identify the required supplementary information] from information that is the representation of management. Such information was not audited or reviewed by me (us), and, accordingly, I (we) do not express an opinion or provide any assurance on it.

The Required Supplementary Information Is Included, the Accountant Did Not Compile the Required Supplemental Information, and No Material Departures From the Prescribed Guidelines Regarding the Required Supplementary Information Have Been Identified

[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)] require that the [identify the required supplementary information] on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by [identify the designated accounting standards setter], who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by me (us), and, accordingly, I (we) do not express an opinion or provide any assurance on it.

All Required Supplementary Information Omitted

Management has omitted [describe the missing required supplementary information] that [identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)] require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by [identify the designated accounting standards setter] who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context.

Some Required Supplementary Information Is Omitted and Some Is Presented in Accordance With the Prescribed Guidelines Regarding the Required Supplementary Information—The Accountant Compiled the Required Supplementary Information That Is Presented

[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)] require that [identify the included supplementary information] be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by [identify designated accounting standards setter] who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I (we) compiled the [identify the required supplementary information] from information that is the representation of management. Such information was not audited or reviewed by me (us), and, accordingly, I (we) do not express an opinion or provide any assurance on it.

Management has omitted [describe the missing required supplementary information] that [identify the applicable financial reporting framework] require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by [identify designated accounting standards setter] who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Material Departures From the Prescribed Guidelines Regarding the Required Supplementary Information Were Identified While Compiling the Required Supplementary Information

[Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)] require that the [identify the supplementary information] on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by [identify designated accounting standards setter] who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I (we) compiled the [identify the required supplementary information] from information that is the representation of management. Such information was not audited or reviewed by me (us), and, accordingly, I (we) do not express an opinion or provide any assurance on it. However, during my (our) compilation, I (we) did become aware of the following material departures from the prescribed guidelines regarding the required supplementary information [identify the required supplementary information and describe the material departures from the prescribed guidelines regarding the required supplementary information].

- A39. When required supplementary information is omitted from financial statements that omit substantially all the disclosures required by accounting principles generally accepted in the United States of America, the accountant may not combine the paragraph discussing the omission of substantially all the disclosures, as required by paragraph 48 of the

proposed SSARS *Compilation of Financial Statements*, with the paragraph referring to the omission of the required supplementary information. Required supplementary information is not part of the basic financial statements, and the omitted disclosures (and the statement of cash flows, if applicable) are required by accounting principles generally accepted in the United States of America to be included in the basic financial statements. Therefore, the reporting elements are not compatible.

- A40.** Information presented for supplementary analysis purposes that the accountant has compiled may become unattached from the accountant's compilation report. To minimize the possibility that a user of the compiled information may infer, through the accountant's association with the compiled information, an unintended level of reliance on the compiled information, the accountant may consider including a reference on each page of the compiled information to the accountant's compilation report. Examples of references to the accountant's compilation report included on each page of the compiled other information are "See accountant's compilation report" and "See independent accountant's compilation report."

Change in Engagement From Audit or Review to Compilation (Ref: par. 37)

- A41.** A request to change the engagement may result from a change in circumstances affecting the entity's requirement for an audit or review engagement; a misunderstanding regarding the nature of an audit, review, or compilation engagement; or a restriction on the scope of the audit or review engagement, whether imposed by the client or caused by circumstances.
- A42.** A change in circumstances that affects the entity's requirement for an audit or review engagement or a misunderstanding concerning the nature of an audit, review, or compilation engagement would ordinarily be considered a reasonable basis for requesting a change in the engagement.
- A43.** The implications of a restriction on the scope of the audit or review engagement include the possibility that information affected by the scope restriction may be incorrect, incomplete, or otherwise unsatisfactory.

A44.

Exhibit—Illustration of Accountant's Compilation Reports on Financial Statements

This exhibit is an interpretive publication, pursuant to paragraph .18 of AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*). Interpretive publications are recommendations on the application of Statements on Standards for Accounting and Review Services (SSARSs) in specific circumstances. An interpretive publication is issued under the authority of the Accounting and Review Services Committee (ARSC) after all ARSC members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with SSARSs.

Illustration—An Accountant's Compilation Report on Single Year Financial Statements Disclosing a Departure From Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Compilation of a complete set of financial statements.
- The financial statements contain a departure from accounting principles generally accepted in the United States of America.

Accountant's Compilation Report

[*Appropriate Addressee*]

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management's Responsibility for the Financial Statements

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant's Responsibility

My (our) responsibility is to report on the financial statements based on our compilation. I (we) compiled the financial statements in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. The objective of a compilation is to read the financial statements and consider whether the financial statements are free from obvious material misstatements and whether they appear to be appropriate in form, without undertaking to obtain or provide any assurance that there are no

material modifications necessary in order for the statements to be in conformity with accounting principles generally accepted in the United States of America, and to report in accordance with the requirements of SSARs.

Known Departure From Accounting Principles Generally Accepted in the United States of America

During our compilation engagement, I (we) did become aware of a departure (certain departures) from accounting principles generally accepted in the United States of America that is (are) described in the following paragraph.

As disclosed in Note X to the financial statements, accounting principles generally accepted in the United States of America require that land be stated at cost. Management has informed me (us) that the company has stated its land at appraised value and that, if accounting principles generally accepted in the United States of America had been followed, the land account and stockholders' equity would have been decreased by \$500,000.

or

A statement of cash flows for the year ended December 31, 20XX, has not been presented. Accounting principles generally accepted in the United States of America require that such a statement be presented when financial statements purport to present financial position and results of operations.¹

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

¹ If a statement of cash flows is not presented, the first paragraph of the accountant's compilation report should be modified accordingly.

EXPOSURE DRAFT

OMNIBUS PROPOSAL

AICPA PROFESSIONAL ETHICS DIVISION

PROPOSED REVISED AND NEW INTERPRETATIONS AND PROPOSED DELETION OF ETHICS RULINGS

June 29, 2012

Comments are requested by August 31, 2012

Comment Deadline Extended Until November 30, 2012

**Prepared by the AICPA Professional Ethics Executive Committee for comments from
persons interested in independence, behavioral, and technical standards matters.**

**Comments should be addressed to Lisa A. Snyder, director of the Professional Ethics
Division, at lsnyder@aicpa.org.**

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June 29, 2012

This exposure draft contains important proposals for review and comment by the AICPA's membership and other interested parties regarding pronouncements for possible adoption by the Professional Ethics Executive Committee (PEEC). The text and an explanation of the proposed pronouncements are included in this exposure draft.

After the exposure period is concluded, and PEEC has evaluated the comments, PEEC may decide to publish one or more of the proposed pronouncements. Once published, the pronouncements become effective on the last day of the month in which they are published in the *Journal of Accountancy*, except if otherwise stated in the pronouncements.

Your comments are an important part of the standard-setting process; please take this opportunity to comment. Responses must be received at the AICPA by August 31, 2012. All written replies to this exposure draft will become part of the public record of the AICPA.

All comments received will be considered by PEEC at its October 25-26, 2012, open meeting.

Please send comments to Lisa A. Snyder, director of the Professional Ethics Division, via e-mail at lsnyder@aicpa.org.

Sincerely,

Wes Williams, *Chair*
AICPA Professional Ethics Executive Committee

Lisa A. Snyder, *Director*
AICPA Professional Ethics Division

Professional Ethics Executive Committee (2011–2012)

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Proposed Revised Interpretation No. 101-3 Under Rule 101

Explanation

The Professional Ethics Executive Committee (PEEC) is exposing for comment proposed revisions to Interpretation No. 101-3, "Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05). On February 28, 2011, PEEC exposed revisions to Interpretation No. 101-3 (found at www.aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/DownloadableDocuments/2011February28OmnibusProposalExpDraft.pdf), addressing, among other things, a perceived inconsistency within Interpretation No. 101-3 as it relates to the general activity (that is, prohibition) of establishing or maintaining internal controls, including performing ongoing monitoring activities for a client. Other clarifications proposed in the February 28, 2011, exposure draft included replacement of the term *management functions* with *management responsibilities*, as well as a description of management responsibilities and additional examples. The examples previously referred to as general activities were also merged into the examples of management responsibilities. At PEEC's April 30–May 1, 2012, meeting, it adopted these and other proposed revisions to Interpretation No. 101-3.

During its deliberations and consideration of comment letters received on the February 28, 2011, exposure draft, PEEC reconsidered the proposed guidance regarding the performance of separate evaluations on the effectiveness of a client's internal control system, as well as a number of other issues it believes should be addressed in Interpretation No. 101-3. Accordingly, certain revisions described subsequently are being proposed and exposed for comment by membership and other interested parties.

During the same timeframe PEEC was deliberating these issues, the Government Accountability Office (GAO) issued the 2011 revision of *Government Auditing Standards*, with the most significant changes relating to its standards for auditor independence, in particular nonattest services. Although the changes made by the GAO created greater consistency between the AICPA's and the GAO's nonattest independence standards, two topics were identified within nonattest services where PEEC believed Interpretation No. 101-3 should be revised. These topics are (a) the cumulative effect that providing multiple nonattest services can have on independence, and (b) preparing financial statements and cash-to-accrual conversions are nonattest services subject to Interpretation No. 101-3.

Cumulative Effect on Independence When Providing Nonattest Services

PEEC is proposing to add a provision to the interpretation that would highlight that providing multiple nonattest services to a client could increase the significance of the threats to independence, even though, individually, the nonattest services would not impair independence. The proposal would require members to consider whether the performance of multiple (otherwise permitted) nonattest services in the aggregate would create a significant threat to independence and, if so, to determine what, if any, safeguards could be applied to eliminate or reduce the threat to an acceptable level. When no safeguards are available to eliminate or reduce the threats to an acceptable level, independence would be considered impaired.

PEEC believes this proposal is consistent with the risk-based approach described in paragraph .05(a) of ET section 100-1, *Conceptual Framework for AICPA Independence Standards* (AICPA, *Professional Standards*), that requires a member to “identify and evaluate threats, both individually and in the aggregate, because threats can have a cumulative effect on a member’s independence.”

Financial Statement Preparation and Cash-to-Accrual Conversions

PEEC is proposing that financial statement preparation and cash-to-accrual conversions performed by the member for a client should be considered nonattest services and subject to the requirements of Interpretation No. 101-3.

For a number of years, the Professional Ethics Division has taken the nonauthoritative position in its *Frequently Asked Questions Performance of Nonattest Services* practice aid (found at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.doc) that if such services were performed as part of an audit, the services would be considered part of the normal audit process and not subject to the interpretation’s requirements, provided the records given the member were substantially complete and current. However, if a member had to perform a service to bring those books and records current or complete (such as compiling the subsidiary information), the service would be considered outside the scope of the attest engagement and, therefore, a nonattest service subject to the interpretation’s requirements. Upon reconsideration of this position, PEEC agreed such services should be considered nonattest services, regardless of whether the services are performed as part of an audit. Accordingly, the proposal would result in a change in position.

In addition, extant Statements on Standards for Accounting and Review Services (SSARs) require the accountant to perform a compilation engagement whenever the accountant prepares and presents financial statements to a client or third parties. Proposed revisions to SSARs have been published for exposure that would remove the preparation of financial statements from the attest function. Because preparation is an integral element of the extant compilation standards and cannot be a nonattest and an attest service simultaneously, the Accounting and Review Services Committee is proposing to revise the applicability of the compilation standards so that the standards apply only when the accountant is engaged to compile financial statements. The effect is that the compilation would not be a submission (prepare and present) service but, instead, would be a service in which the accountant reads and reports on financial statements the accountant may have prepared as a separate nonattest service.

Because PEEC’s proposal would result in a change in position, and members may need to implement new policies and procedures, it believes a transition period, such as two years after the revised interpretation is published, would be appropriate. PEEC also believes members should be permitted to implement this provision early.

Internal Audit Assistance Services

In the February 28, 2011, exposure draft, PEEC proposed to include a requirement that members evaluate the significance of the management participation threat created by performing separate evaluations on the effectiveness of the client’s internal control system. PEEC believed this

proposed requirement was necessary because depending upon the nature and frequency of the separate evaluations, the member could perform services that were equivalent to ongoing monitoring procedures that are a responsibility of management and that would impair independence if performed by the member. During the deliberations of the February 28, 2011, exposure draft, PEEC decided the proposed guidance would be better aligned if it was incorporated into the "Internal Audit Assistance Services" section of the interpretation. PEEC is also proposing two new examples of activities that would impair independence to assist members in understanding these new provisions.

PEEC also believes that separate evaluations performed to determine the effectiveness of client controls are an example of an internal audit service and should be treated the same as other internal audit services. Furthermore, PEEC believes all internal audit services should be subject to consideration of whether they may result in performing ongoing monitoring based on factors such as the frequency of the internal audit services, the significance of the controls being tested, as well as the scope or extent of the controls being tested in relation to the overall financial statements of the client.

Attest Related Activities and Internal Audit Assistance Services

In the February 28, 2011, exposure draft, PEEC proposed to delete Ethics Ruling No. 103, "Attest Report on Internal Controls," because it believed adequate guidance would be provided in the new "Management Responsibilities" section of Interpretation No. 101-3. This ethics ruling explained that a member would be independent to issue an attest report on a client's assertion regarding the effectiveness of its internal control over financial reporting even if the member had provided extended audit services for a client that are in compliance with Interpretation No. 101-3, provided certain safeguards were in place. Those safeguards included a requirement that management not rely on the firm's work as the primary basis for its assertion.

At its August 2011 meeting, PEEC agreed to delete this ethics ruling because it anticipated it would adopt the related guidance in the new "Management Responsibilities" section of Interpretation No. 101-3. PEEC, however, decided this guidance would be more appropriately addressed in the "Attest-Related Activities" subsection of the "Internal Audit Assistance Services" section of Interpretation No. 101-3.

Requests for Specific Comments

Although PEEC welcomes comments on all aspects of this proposal, it specifically requests feedback on the following issue:

1. Do you believe a two-year transition period is appropriate for the revisions to the "Activities Related to Attest Services" section that require activities such as financial statement preparation and cash-to-accrual conversions to be subject to the requirements of Interpretation No. 101-3, or should the effective date be aligned with the effective date of the revised SSARS that is anticipated to be December 15, 2014? Please explain.

Text of Proposed Revised Interpretation

(Additions appear in boldface italic, and deletions are ~~stricken~~.)

Note: The complete text of the interpretation is not presented subsequently. The only portion of the interpretation that is presented subsequently that is not being proposed for revision is the introduction.

101-3—Nonattest Services (in part)

Before a member or his or her firm (“member”) performs nonattest services (for example, tax or consulting services) for an attest client,¹⁴ the member should determine that the requirements described in this interpretation have been met. In cases where the requirements of this interpretation have not been met during the period of the professional engagement or the period covered by the financial statements, the member’s independence would be impaired, except as noted in the following paragraph.

A member’s independence would not be impaired if the member performed nonattest services that would have impaired independence during the period covered by the financial statements, provided that

- a. the nonattest services were provided prior to the period of the professional engagement;
- b. the nonattest services related to periods prior to the period covered by the financial statements; ~~and~~
- c. the financial statements for the period to which the nonattest services relate were audited by another firm (or in the case of a review engagement, reviewed or audited by another firm).

Cumulative Effect on Independence When Providing Nonattest Services

This interpretation includes various examples of nonattest services that individually would not impair independence. Because the cumulative effect of multiple nonattest services can increase the significance of the threats to independence before and during the provision of nonattest services to an attest client, the member should consider whether the performance of nonattest services in the aggregate creates a significant threat to the member’s independence. When the provision of nonattest services in the aggregate creates threats that are determined to be significant, safeguards should be applied to eliminate the threats or reduce them to an acceptable level. If no safeguards are available to eliminate or reduce the threats to an acceptable level, independence would be considered impaired.

¹⁴ A member who performs a compilation engagement for a client should modify the compilation report to indicate a lack of independence if the member does not meet all of the conditions set out in this interpretation when providing a nonattest service to that client (see Statement on Standards for Accounting and Review Services No. 1, *Compilation and Review of Financial Statements* [paragraph .19 of AR section 100]). [Footnote added, effective December 31, 2003, by the Professional Ethics Executive Committee. Footnote renumbered by the revision of Interpretation No. 101-1, April 2006. Footnote subsequently renumbered by the revision of Interpretation No. 101-1, March 2010.]

Activities Related to Attest Services

Performing attest services often involves communication between the member and client management regarding (a) the client's selection and application of accounting standards or policies and financial statement disclosure requirements,; (b) the appropriateness of the client's methods used in determining the accounting and financial reporting,; (c) adjusting journal entries that the member has prepared or proposed for client management consideration,; and (d) the form or content of the financial statements. These communications are considered a normal part of the attest engagement and would not constitute performing a nonattest service subject to this interpretation.

However, the member should exercise judgment in determining whether his or her involvement has become so extensive that it would constitute performing a separate service ~~that~~ which would be subject to the Interpretation's "General Requirements for Performing Nonattest Services" section. *For example, activities such as financial statement preparation, cash-to-accrual conversions, and reconciliations are considered outside the scope of the attest engagement and, therefore, constitute a nonattest service subject to this interpretation.*

Internal Audit Assistance Services

Internal audit services involve assisting the client in the performance of its internal audit activities, sometimes referred to as "internal audit outsourcing."² In evaluating whether independence would be impaired with respect to an attest client, the nature of the service needs to be considered.

Assisting the client in performing financial and operational³² internal audit activities would impair independence, unless the member takes appropriate steps to ~~ensure~~ *be satisfied* that the client ~~understands~~ *accepts* its responsibility for³³ *designing, implementing, and maintaining internal control and for* directing the internal audit function, including the management thereof. Accordingly, any outsourcing of the internal audit function to the member whereby the member, in effect, manages the internal audit activities of the client would impair independence.

Designing, implementing, or maintaining the client's monitoring activities are management responsibilities. Accordingly, independence would be impaired if a member accepts responsibility for performing such activities. Monitoring activities are procedures performed

³² For example, a member may assess whether performance is in compliance with management's policies and procedures, to identify opportunities for improvement, and to develop recommendations for improvement or further action for management consideration and decision making. [Footnote added, effective December 31, 2003, by the Professional Ethics Executive Committee. Footnote renumbered by the Professional Ethics Executive Committee, July 2004. Footnote subsequently renumbered by the revision of Interpretation No. 101-1, April 2006. Footnote subsequently renumbered by the Professional Ethics Executive Committee, February and July 2007. Footnote subsequently renumbered by the revision of Interpretation No. 101-1, March 2010.]

³³ [Footnote added, effective December 31, 2003, by the Professional Ethics Executive Committee. Footnote renumbered by the Professional Ethics Executive Committee, July 2004. Footnote subsequently renumbered by the revision of Interpretation No. 101-1, April 2006. Footnote subsequently renumbered by the Professional Ethics Executive Committee, July 2007. Footnote deleted and subsequently renumbered by the Professional Ethics Executive Committee, July 2007. Footnote subsequently renumbered by the revision of Interpretation No. 101-1, March 2010.]

to assess whether components of internal control are present and functioning. Certain monitoring activities, such as ongoing evaluations, are built into the routine, recurring operating activities of an organization and are generally performed on a real-time basis. The management participation threat created by a member performing ongoing evaluations is so significant that no safeguards could reduce the threat to an acceptable level.

Internal audit services, including separate evaluations to determine whether client controls are present and functioning effectively, that do not result in performing ongoing evaluations or assuming other management responsibilities would generally not create a significant threat to independence. However, members should use judgment in determining whether the internal audit services performed may be equivalent to performing ongoing evaluations, considering factors such as the frequency of the internal audit services, the significance of the controls being tested, as well as the scope or extent of the controls being tested in relation to the overall financial statements of the client.

To reduce the threat of assuming a management responsibility, In addition to the general requirements of this interpretation, the member should ~~ensure~~ *be satisfied* that client management:

- ~~D~~designates an³⁴ individual or individuals, who possess suitable skill, knowledge, and/or experience, preferably within senior management, to be responsible for the internal audit function.;
- ~~D~~determines the scope, risk, and frequency of internal audit activities, including those to be performed by the member providing internal audit assistance services.;
- ~~E~~evaluates the findings and results arising from the internal audit activities, including those performed by the member providing internal audit assistance services.;
- ~~E~~evaluates the adequacy of the audit procedures performed and the findings resulting from the performance of those procedures by, among other things, obtaining reports from the member.

The member may assist the individual responsible for the internal audit function in performing preliminary audit risk assessments, preparing audit plans, and recommending audit priorities. The member should also be satisfied that *those charged with governance* the client's board of directors, audit committee, or other governing body ~~is~~ *are* informed about the member's and management's respective roles and responsibilities in connection with the engagement. Such information should provide the client's governing body ~~those charged with governance~~ a basis for developing guidelines for management and the member to follow in carrying out these responsibilities and monitoring how well the respective responsibilities have been met.

~~The member is responsible for performing the internal audit procedures in accordance with the terms of the engagement and reporting thereon. The performance of such procedures should be~~

³⁴ [Footnote deleted by the Professional Ethics Executive Committee, January 2005. Footnote renumbered by the revision of Interpretation No. 101-1, April 2006. Footnote subsequently renumbered by the Professional Ethics Executive Committee, February and July 2007. Footnote subsequently renumbered by the revision of Interpretation No. 101-1, March 2010.]

~~directed, reviewed, and supervised by the member. The report should include information that allows the individual responsible for the internal audit function to evaluate the adequacy of the audit procedures performed and the findings resulting from the performance of those procedures. This report may include recommendations for improvements in systems, processes, and procedures. The member may assist the individual responsible for the internal audit function in performing preliminary audit risk assessments, preparing audit plans, and recommending audit priorities. However, the member should not undertake any responsibilities that are required, as described above, to be performed by the individual responsible for the internal audit function.~~

The following are examples of activities (in addition to those listed in the "~~General Activities~~ **Management Responsibilities**" section of this interpretation) that, if performed as part of an internal audit assistance engagement, would impair independence:

- Performing ongoing monitoring activities or control activities (for example, reviewing loan originations as part of the client's approval process or reviewing customer credit information as part of the customer's sales authorization process) that affect the execution of transactions or ensure that transactions are properly executed, accounted for, or both; and performing routine activities in connection with the client's operating or production processes that are equivalent to those of an ongoing compliance or quality control function
- *Performing frequent separate evaluations on the effectiveness of a significant control such that the member is, in effect, performing ongoing evaluations*
- *Having client management rely on the member's work as the primary basis for the client's assertions on the design or operating effectiveness of internal controls*
- Determining which, if any, recommendations for improving the internal control system should be implemented
- Reporting to the board of directors or audit committee on behalf of management or the individual responsible for the internal audit function
- Approving or being responsible for the overall internal audit work plan, including the determination of the internal audit risk and scope, project priorities, and frequency of performance of audit procedures
- Being connected with the client as an employee or in any capacity equivalent to a member of client management (for example, being listed as an employee in client directories or other client publications, permitting himself or herself to be referred to by title or description as supervising or being in charge of the client's internal audit function, or using the client's letterhead or internal correspondence forms in communications)

The foregoing list is not intended to be all-inclusive.

Attest-Related Services

Services involving an extension of the procedures that are generally of the type considered to be extensions of the member's audit scope applied in the audit of the client's financial statements, such as confirming of accounts receivable and analyzing fluctuations in account balances, are not considered internal audit assistance services and would not impair independence even if the

extent of such testing exceeds that required by generally accepted auditing standards. In addition, engagements performed under the attestation standards would not be considered internal audit assistance services and, therefore, would not impair independence.

When a member performs internal audit services that would not impair independence under this interpretation and is subsequently engaged to perform an attestation engagement to report on management's assertion regarding the effectiveness of its internal control, independence would not be considered impaired, provided the member is satisfied that client management does not rely on the member's work as the primary basis for its assertion.

Transition

Independence would not be impaired as a result of the more restrictive requirements of Interpretation No. 101-3, provided the provision of any such nonattest services are pursuant to arrangements in existence on December 31, 2003, and are completed by December 31, 2004, and the member was in compliance with the preexisting requirements of this interpretation.

The revisions to the "Activities Related to Attest Services" section that require activities such as financial statement preparation, cash-to-accrual conversions, and reconciliations to be subject to this interpretation would be effective [two years from the date when it is published in the Journal of Accountancy]. Early implementation is permitted.

Proposed New Interpretations Under Rules 501 and 502

Explanation

Because the use of the CPA designation falls under the jurisdiction of the state boards of accountancy, PEEC is proposing to delete Ethics Ruling No. 65, "Use of the CPA Designation by Member Not in Public Practice," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .130-.131); Ethics Ruling No. 38, "CPA Title, Controller of Bank," of ET section 591, *Ethics Rulings on Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 501 par. .075-.076); and Ethics Ruling No. 78, "Letterhead: Lawyer-CPA," of ET section 591 (AICPA, *Professional Standards*, ET sec. 591 par. .155-.156), and to replace the guidance in these rulings with two interpretations.

Both proposed interpretations direct members to refer to their applicable state accountancy laws and board of accountancy rules and regulations for guidance regarding the use of the CPA designation. Proposed Interpretation No. 501-11 "Use of the CPA Designation," under Rule 501, *Acts Discreditable*, concludes that failure to follow such rules, laws, or regulations would be considered a violation of Rule 501 and would apply to both members in public practice and business. Proposed Interpretation No. 502-6, "Use of the CPA Designation," under Rule 502, *Advertising and Other Forms of Solicitation*, concludes that such behavior would be considered a violation of Rule 502 and would apply only to members in public practice because this rule is only applicable to members in public practice.

Text of Proposed New Interpretations Under Rules 501 and 502

501-11—Use of the CPA Designation

A member should refer to applicable state accountancy laws and board of accountancy rules and regulations for guidance regarding the use of the CPA designation. A member who fails to follow his or her state accountancy laws, rules, and regulations on use of the CPA designation would be considered to have used the CPA designation in a manner that is false, misleading, or deceptive and in violation of Rule 501, *Acts Discreditable* (AICPA, *Professional Standards*, ET sec. 501 par. .01).

502-6—Use of the CPA Designation

A member should refer to applicable state accountancy laws and board of accountancy rules and regulations for guidance regarding the use of the CPA designation. A member who fails to follow his or her state accountancy laws, rules, and regulations on use of the CPA designation would be considered to have used the CPA designation in a manner that is false, misleading, or deceptive and in violation of Rule 502, *Advertising and Other Forms of Solicitation* (AICPA, *Professional Standards*, ET sec. 502 par. .01).

Proposed Deletion of Ethics Ruling No. 65 Under Rule 102

Explanation

PEEC is recommending that Ethics Ruling No. 65 be deleted because the guidance contained in proposed Interpretation Nos. 501-9 and 502-6 would provide members with guidance on use of the CPA designation.

Text of Proposed Deletion

65. Use of the CPA Designation by Member Not in Public Practice

.130 Question—A member who is not in public practice wishes to use his or her CPA designation in connection with financial statements and correspondence of the member's employer. The member also wants to use the CPA designation along with employment title on business cards. Is it permissible for the member to use the CPA designation in these manners?

.131 Answer—Yes. However, if the member uses the CPA designation in a manner to imply that he or she is independent of the employer, the member would be knowingly misrepresenting facts in violation of Rule 102 [ET section 102 par. .01]. Therefore, it is advisable that in any transmittal within which the member uses his or her CPA designation, he or she clearly indicate the employment title. In addition, if the member states affirmatively in any transmittal that a financial statement is presented in conformity with generally accepted accounting principles, the member is subject to Rule 203 [ET section 203 par. .01].

[Replaces previous Ethics Ruling No. 65, "Use of the CPA Designation by Member Not in Public Practice," February 1996, effective February 29, 1996.]

Proposed Deletion of Ethics Ruling No. 38 Under Rule 501

Explanation

PEEC is recommending Ethics Ruling No. 38 be deleted because the guidance contained in proposed Interpretation No. 501-9 would provide members with guidance on use of the CPA designation.

Text of Proposed Deletion

38. CPA Title, Controller of Bank

.075 Question—A member not in public practice is controller of a bank. May the member permit the bank to use his or her CPA title on bank stationery and in paid advertisements listing the officers and directors of the bank?

.076 Answer—The use of the CPA title on bank stationery by a member not in public practice is proper. It would also be proper for the CPA title of the member to appear in paid advertisements of the bank that list the officers and directors.

Proposed Deletion of Ethics Ruling No. 78 Under Rule 502

Explanation

PEEC is recommending Ethics Ruling No. 78 be deleted because the guidance contained in proposed Interpretation No. 502-6 would provide members with guidance on use of the CPA designation.

Text of Proposed Deletion

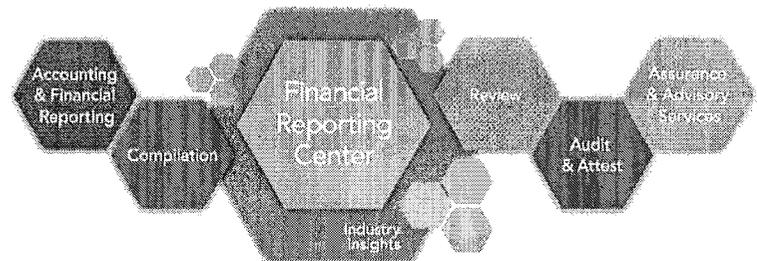
78. Letterhead: Lawyer-CPA

.155 Question—May a member who is also admitted to the Bar represent him or herself on his or her letterhead as both an attorney and a CPA, or should he or she use separate letterheads in the conduct of the two practices?

.156 Answer—The code does not prohibit the simultaneous practice of accounting and law by a member licensed in both professions. Either a single or separate letterheads may be used, provided the information with respect to the CPA designation complies with Rule 502, *Advertising and Other Forms of Solicitation* [sec. 502 par. .01]. However, the member should also consult the rules of the applicable Bar Association.

Preparation as a Nonattest Service: What Does it Mean and Why Should I Care?

By Charles E. Landes, CPA
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Introduction

In June 2012, the AICPA's Professional Ethics Executive Committee (PEEC) issued the exposure draft *Proposed Revised and New Interpretations and Proposed Deletion of Ethics Rulings*. This exposure draft includes a proposal to amend Interpretation No. 101-3, "Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05), to make clear that certain services, including financial statement preparation, would be a nonattest service.

Concurrently, the AICPA's Accounting and Review Services Committee (ARSC) issued the exposure draft *Proposed Statements on Standards for Accounting and Review Services Association With Unaudited Financial Statements; Compilation of Financial Statements; and Compilation of Financial Statements—Special Considerations* that would, among other things, amend when the compilation standard applies and what action a CPA should take when the CPA has been involved in preparing financial statements but has not been engaged to perform a compilation, review, or audit engagement.

This white paper looks at the rationale behind these two proposals, why they make sense, and what practitioners need to consider going forward. Specifically, this paper looks at three key areas:

1. Why is preparation a nonattest service?
2. Why does the compilation standard need to be amended?
3. What standards must be followed if a member prepares financial statements?

Current Confusion

An attest engagement is defined in the AICPA's Code of Professional Conduct as "... an engagement that requires independence as defined in AICPA *Professional Standards*." Those engagements include an audit, review, compilation,¹ examination, or agreed upon procedures engagement. Standards for performing and reporting on an attest engagement are included in Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, and Statements on Standards for Attestation Engagements.

By definition, a *nonattest engagement* is one where independence is not required.

Therefore, understanding whether a particular service is an attest service or a nonattest service is critical for a number of reasons: (1) it dictates whether the member needs to be independent and (2) it dictates what standards a member needs to follow.

Whenever a service is deemed to be a nonattest service, the requirements of Interpretation No. 101-3 must be met when a member intends to perform both nonattest and attest services for the same client.² If the member is not able to meet the requirements of Interpretation No. 101-3, a member's independence is considered impaired.

But what if there was confusion about whether a particular service was an attest service or nonattest service?

¹ Although independence is not a precondition to performing a compilation, the compilation standards do include a reporting requirement to disclose when the CPA is not independent. Therefore, because the compilation standard includes an independence requirement it is, by definition, an attest engagement.

² If a member does not intend to perform an attest service for a nonattest client, the member is not required to follow the requirements of Interpretation No. 101-3, "Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05).

That's the situation that currently confronts members in public practice who prepare or assist their clients in preparing financial statements. The confusion is present because both the nonattest literature and the attest literature discuss preparation (or drafting) of financial statements. Therefore, when a member in public practice who performs a compilation, review, or audit for a client and the member prepares or assists in preparing the financial statements of that client, the member is uncertain about whether he or she needs to follow only the compilation, review, or audit standards or whether the member also needs to comply with the requirement of Interpretation No. 101-3.

Current Ethics Proposal—Making it Clear

PEEC's proposed amendment of Interpretation No. 101-3 would make it clear that whenever a member prepares or assists in preparing financial statements for a client that service would be a nonattest service.

Let's take the situation of a CPA who is engaged to perform a compilation, review, or audit engagement for a small business client. As is typical with almost all small business clients, the CPA prepares or assists in preparing the client's financial statements. That might mean that the member prepares the entire financial statements and accompanying notes, it might mean that he or she prepares only the statement of cash flows, or it might mean that the member only assists the client in the drafting of the accompanying notes.

Where today the member might not believe that Interpretation No. 101-3 applies because the CPA is preparing the financial statements as part of an attest engagement, this proposal would require that the CPA treat the preparation as a nonattest service. Therefore, a CPA would be required to follow the requirements of Interpretation No. 101-3 as it relates to the preparation portion of the engagement and the compilation, review, or audit standards as it relates to the attest portion of the engagement.

At this point, you may be wondering about the theory behind the change. First, the financial statements have always been considered the responsibility of management. Therefore, if the financial statements are management's responsibility, management needs to be responsible for their preparation. That doesn't mean they can't "outsource" the preparation, but it does mean that they can't outsource their responsibility. Secondly, independence requirements have never applied to the preparation of financial statements, whether prepared by a member who works for the client or a member who is in public practice. Finally, the preparation of financial statements has long been considered to be part of management's system of internal control over financial reporting.³

Therefore, it's logical that our standards should make clear that preparation of a client's financial statement is a nonattest service and not a service encompassed within an attest service.

How Does This Impact the Attest Standards?

Assuming PEEC's proposed change becomes final, the audit, review, and compilation standards will then be amended to make clear that preparing or drafting financial statements, in whole or in part, is not part of the attest service, but rather needs to be treated as a nonattest service. For the audit and review literature, this will be a simple fix and can most likely be done as a conforming change once the PEEC change is finalized. But the change required of the compilation standard is more complex.

How Does This Impact the Compilation Standard Specifically?

Under today's compilation standard, the accountant is required to comply whenever "... he or she is engaged to report on compiled financial statements or submits financial statements to a client or to third parties." Drilling further into the compilation literature, we see that submission of financial statements is defined as "presenting to management financial statements that an accountant has prepared." Therefore, the compilation standard applies today when the CPA is either (1) engaged to perform a compilation or (2) when the CPA prepares financial statements on behalf of management.

But wait, isn't PEEC now clarifying that preparation is not part of any attest service but is a nonattest service? The answer you know from the beginning of this white paper is YES.

That is the conundrum that ARSC faced in light of the PEEC proposal. Where ARSC (and our members) once viewed preparation as part of the compilation service (that is, preparation *is* compiling), that view can no longer be valid given PEEC's clarification. Preparation can no longer be part of an attest service; rather, preparation will be a nonattest service.

³ Earlier this year, the Professional Ethics Executive Committee removed a requirement from Interpretation No. 101-3 that prohibited a member from designing or maintaining internal controls. By removing this requirement, it facilitated permitting a CPA to maintain controls over the preparation as long as management was responsible for the controls and certain other requirements of Interpretation No. 101-3 were met.

This PEEC proposal, among other events, led ARSC to conclude that it is time to uncouple preparation from compilation. Although the PEEC decision was enough to move ARSC to consider the uncoupling, other technology changes already had ARSC thinking that the compilation standard needed to be revised.

For years, members have called the Technical Hotline and inquired at conferences whether they had “submitted” financial statements. For example, if a CPA was performing bookkeeping services for the client and the client “pushed the button” to print the financial statements, many CPAs would claim that they have not “submitted” the financial statements. The fact that the client “pushed the button” meant that the client (or more accurately, the client’s software) prepared the financial statements. Other CPAs might, legitimately, argue the opposite. So too would some members argue that even if they pushed the button, they didn’t prepare the financial statements because all they did was prepare adjustments at month’s end. So the arguments over submission and preparing are arguments that will surely continue if not resolved.

But before preparation of financial statements is discussed further, we need to look at a fundamental question that ARSC debated—does it make sense to compel a member to follow an attest standard if the member is engaged to perform a nonattest service?

Let’s explore that key question further. Assume a member is engaged to perform bookkeeping services for a client and that service results in the member preparing monthly financial statements (all of which will be a nonattest service). In that example, should our rules compel a member to perform an attest engagement, when the member has not been engaged to perform an attest service? For example:

- Should we compel the member to perform an audit as a result of preparing those monthly financial statements, even though the client has not engaged the member to perform an audit?
- Should we compel the member to perform a review if the member is engaged to perform bookkeeping?

If it makes no sense to compel an audit or a review, why does it make theoretical sense to compel a compilation, when that’s not what the member was engaged to do?

Taking that example further, does it make sense to compel a member to perform a compilation, review, or audit of an entity’s financial statements if the member is engaged to perform a tax return of the entity—another nonattest service? I think most everyone would answer these questions with a resounding *NO*. Members should be held to the standard for the service that they’ve been engaged to perform. Neither ARSC nor the Auditing Standards Board should compel a member to perform a compilation, review, or audit if that’s not what the member has been engaged to do.

Preparation—What Does it Mean and What Standards Would Govern?

If anyone thinks that members should be compelled to perform an attest service and follow those standards when they’ve not been engaged to do so, the next question becomes which attest standard should be followed and what triggers preparation?

In my travels, I have heard some members express their concern that members should be required to follow the compilation standard and issue a compilation report whenever they prepare financial statements for a client. When asked why, their response is that a user wants the assurance that a compilation report provides. Others have voiced that if the compilation standard isn’t followed, there will be no preparation standards to follow and as a result, the public will receive shoddy financial statements. Let’s look at both of those concerns in more detail.

First, a compilation explicitly says that no assurance is being provided. Although a member can’t control what assurance a user takes from his or her compilation report, every member should make clear to users that a compilation does not provide assurance. If a member wants a user to have a level of assurance from an attest engagement, then ARSC should compel a member to perform a review engagement, where the engagement is actually structured as a limited assurance engagement. Otherwise, there is absolutely no basis for assurance either under today’s compilation standard or under the proposed compilation standard. I would further add that, in my professional view, a member who encourages a compilation because he or she thinks a user will take assurance from the compilation report is not acting in the best interest of the profession or in the public’s interest. Therefore, anyone who believes that a member should be compelled to follow an attest standard because users want the reliability from an assurance engagement, you should provide a comment to ARSC to require a review for a nonattest bookkeeping service where a member prepares financial statements.

Secondly, neither the compilation standards, review standards, nor the auditing standards provide any requirements for preparing financial statements. The attest standards address how a CPA performs his or her duties relative to the attest function, including how the member reports on the financial statements. The requirements for the preparation of financial statements follow the accounting framework that the entity uses, not an attest standard. Additionally, there are preparation standards already in effect in addition to those of the accounting framework. A member of the AICPA is obligated to follow the AICPA’s Code of Professional Conduct in each and every professional service performed. Therefore, the Code must be followed by any member when preparing

financial statements. Those standards address such important topics as integrity, objectivity, and due professional care. More specifically, Rule 201, *General Standards* (AICPA, *Professional Standards*, ET sec. 201 par. .01), would require a member to exercise due professional care and competence when preparing financial statements and adequately plan and supervise the nonattest engagement. In addition, Interpretation No. 102-1, "Knowing Misrepresentations in the Preparation of Financial Statements or Records," under Rule 102, *Integrity and Objectivity* (AICPA, *Professional Standards*, ET sec. 102 par. .02), and Interpretation No. 501-4, "Negligence in the Preparation of Financial Statements or Records," under Rule 501, *Acts Discreditable* (AICPA, *Professional Standards*, ET sec. 501 par. .05), specifically address preparation of financial statements. These ethics interpretations prohibit a member from making any "materially false and misleading entries in the financial statements" and from failing to "correct an entity's financial statements that are materially false and misleading." And as they should, these rules apply equally to a member in public practice or a member in business when preparing financial statements.

Let's next turn our attention to *preparation* and what that term means. As discussed previously, preparation or assisting in the preparation can take on many different forms. Although some firms may still prepare a complete set of financial statements for a client, many firms assist a client in preparing only a portion of the financial statements, often the statement of cash flows, notes, or both. With the increase of cloud accounting applications, a member sitting miles away may prepare portions of a client's financial statement, provide adjustments, or draft notes.

So the question is if ARSC did require a report when a member prepares financial statements, what would the trigger be for that requirement? Would it only apply if the CPA prepared the entire set, or would it pertain if a member prepared only a piece or pieces of the financial statements?

ARSC came to the conclusion that if management wanted a report on its financial statements, regardless of who prepared the financial statements, then management should engage the member to perform an attest service.

How About the Public Interest?

As the national professional organization of CPAs, the AICPA is committed to protecting the public interest. Our Code of Professional Conduct does that as well as the standards that are issued by our senior committees. In that light, ARSC believes that our public interest obligation must be served in the sense that it is critical that any user of financial statements, where a CPA in public practice is associated, must understand the level of service that was performed by that CPA. Therefore, ARSC concluded that if a member prepares financial statements, in whole or in part, but did not perform a compilation, review, or audit of the financial statements, then those financial statements need to make clear to any user that an attest service was not performed.

To that end, the ARSC proposal would require a member to request that the client place a notice (or legend) on the face of the financial statements if the member prepared or assisted in the preparation of the financial statement but was not engaged to perform a compilation, review, or audit. That notice could take many forms including words such as "These financial statements have not been subject to a compilation, review, or audit engagement." The association standard provides different illustrations and is flexible on the words and location of the requirement to provide a notice.

In Summary

It is my personal view that PEEC and ARSC have found ways to balance the public interest with an approach that provides flexibility for our members. These changes take nothing away from our members' ability to be able to serve their clients in a fashion and in a manner that makes the most sense for their clients and the users of the clients' financial statements.

In summary, here's what will happen assuming the proposals are adopted:

1. PEEC makes clear that preparation is a nonattest service. That change reinforces the traditional view of management's responsibility. It also eliminates an inconsistent practice today in that this change will make clear that preparation, in whole or in part, is a nonattest service and not part of any attest service.
2. ARSC uncouples the compilation standard from the nonattest preparation service.⁴ That helps to prevent a member from accidentally being held to an attest standard that he or she was never engaged to perform. In cooperation with the client and any user of the client's financial statements, the member will be able to design the right attest service that meets everyone's needs. Additionally, this eliminates questions over submission and who prepared the statements. The compilation, review, and auditing standards would be applicable when the member is engaged to perform one of these attest services or voluntarily decides to do so.

⁴ The Accounting and Review Services Committee and the Auditing Standards Board will also amend the review and auditing literature, respectively.

3. The user, whether inside management or not, will be protected through a notice either on the face of the financial statement or attached to the financial statements that makes clear that a CPA has not performed a compilation, review, or audit of the financial statements when the member is only engaged to perform a nonattest preparation engagement. A member who prepares financial statements, whether in public practice or as an employee in business or industry, will follow the Code of Professional Conduct.

I hope that you have found this white paper helpful in understanding not only the changes being proposed but why they are being proposed. I hope too that you will carefully read each exposure draft and, prior to the comment deadline of November 30, 2012, let our standard setters know whether you agree or disagree with these proposed changes, and how, in your view, the standards could be improved.

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National Association of State Boards of Accountancy

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September 6, 2012

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Re: Exposure Draft dated June 29, 2012 – Omnibus Proposal, AICPA Professional Ethics Executive Committee, Proposed Revised and New Interpretations and Proposed Deletions of Ethics Rulings, *Proposed Revised Interpretation No. 101-3 Under Rule 101*; and Exposure Draft dated June 29, 2012 - Proposed Statements on Standards for Accounting and Review Services, AICPA Accounting and Review Services Committee, *Association with Unaudited Financial Statements; Compilation of Financial Statements; and Compilation of Financial Statements-Special Considerations* (collectively, “Exposure Drafts”)

Dear Members and Staff of the AICPA Professional Ethics Executive Committee and Members and Staff of the AICPA Accounting and Review Services Committee:

We appreciate the opportunity to offer comment on the Exposure Draft of the Professional Ethics Executive Committee (“PEEC Draft”) and the Exposure Draft of the AICPA Accounting and Review Services Committee (“ARSC Draft”). The National Association of State Boards of Accountancy’s (NASBA) mission is to enhance the effectiveness of the licensing authorities for public accounting firms and certified public accountants in the United States and its territories. In furtherance of that objective, we offer the following comments on the Exposure Drafts.

Comments on the ARSC and PEEC Drafts

Effective Dates

We suggest that the effective dates of the Exposure Drafts be made the same date, December 15, 2014. Early adoption of the ARSC proposal should not be allowed since dual standards operating simultaneously may cause regulatory and public confusion.

Lisa A. Snyder, CPA
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Comments on the ARSC Draft

Association With Unaudited Financial Statements

NASBA believes a public protection issue is inherent in the "Proposed Statement on Standards for Accounting and Review Services, *Association With Unaudited Financial Statements*" (the "Proposed Statement").

As a matter of principle, we believe that a financial statement user should be able to clearly understand the CPA's role in the preparation of financial statements. We are concerned that this principle is not advanced when Paragraph 5 (Definitions) of the Proposed Standard says, in part, that an accountant is associated with unaudited financial statements when (5b): "...the accountant prepares, in whole or in part, financial statements, even though the accountant does not append the accountant's name to the financial statements."

Paragraph 7 of the Proposed Standard says: "When the accountant is associated with unaudited financial statements for the reasons described in paragraph 5b, the accountant should request that the entity clearly indicate that the financial statements were not compiled, reviewed, or audited."

The Proposed Standard does not preclude the accountant from attaching a report to the unaudited financial statements and suggests wording to "clearly indicate that the accountant has not compiled, reviewed, or audited the financial statements" and state that the accountant does not express an opinion or any form of assurance on them. However, the Proposed Standard does not require that a report be issued by the accountant.

We strongly recommend that Paragraph 4 be changed to require that the accountant attach a report to the unaudited financial statements and that the report's wording include the following:

"We (I) have prepared [assisted in the preparation of] the financial statements of [Entity Name]. The financial statements as of and for the year ended December 31, 20XX, were not compiled, reviewed, or audited and, accordingly, we (I) do not express an opinion or any form of assurance on them."

Also, each page of the unaudited financial statements should also include the legend: "See Accountant's Report."

Paragraph 6 of the Proposed Standard requires the accountant to apply certain procedures to unaudited financial statements that the accountant is associated with (as described in Paragraph 5a). Paragraph 6 is silent on financial statements that the accountant has prepared (as described in Paragraph 5b). We recommend, as a minimum, that the final standard remind the accountant

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that whenever preparing financial statements for clients, that the accountant also is responsible for the appropriate disposition of known errors or other misstatements.

One consequence that may occur as a result of designating “prepare and present” engagements as non-attest engagements is that such engagements will no longer be subject to peer review. We believe that many entities that previously requested compilation services, which are subject to peer review, may request that the accountant perform a “prepare and present” engagement and will not request a compilation. Thus, a significant amount of work by accountants may no longer be scrutinized by peer review teams.

We believe that ARSC should address the potential ramifications of this issue within the American Institute of Certified Public Accountants, including its Peer Review Board, prior to proceeding with “prepare and present” engagements.

We believe the proposed requirements for association with non-attest financial statement engagements should include a written engagement letter between accountant and entity. In the engagement letter the entity should agree to inform potential users that the financial statements were not compiled, reviewed or audited.

Compilation of Financial Statements –Material Misstatements

We note that in the ARSC Draft, *Compilation of Financial Statements*, when the accountant is asked to read the financial statements, the accountant is to consider whether they are free from obvious material misstatements (Paragraph 3a). However, in Paragraph 14, the accountant is asked to read only for obvious material errors. This appears to us to be an unintended discrepancy in the requirements without a meaningful distinction in the circumstances. Accordingly, we suggest substituting “misstatements” for “error” in Paragraph 14.

Please also consider adding a definition of “misstatements.” While the term “fraud” is included in the definitions section of the Clarified Compilation standard, the terms “error” and “misstatements” are only described in the explanatory paragraphs of A17 and A22. We suggest the terms “error” and “misstatement” should also be included in the definitions.

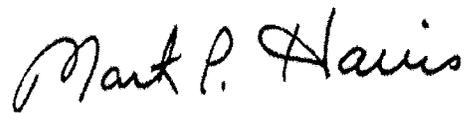
Comment on the PEEC Draft

We support the changes to Interpretation No. 101-3 and to the new interpretations under Rules 501 and 502 in the Code of Professional Conduct.

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Michael P. Glynn, CPA
September 6, 2012
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We appreciate the opportunity to comment on the Exposure Drafts.

Sincerely,



Mark P. Harris, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO